BANCA IFIS

VALUE TO YOUR BUSINESS

2017

BANCA IFIS GROUP CONSOLIDATED REPORTS

www.bancaifis.it

Banca IFIS S.p.A - Registered office in Via Terraglio 63, 30174 Mestre, Venice - Registration number in the Companies Registered of Venice and Tax Code 02505630109 - VAT number 02992620274 - REA (Administrative Economic Index) number: VE - 0247118 - Fully paid-up share capital Euro 53.811.095 - Registry of Banks no. 5508 - Parent Company of the Banca IFIS Banking Group S.p.A, enrolled in the registry of Banking Groups - Member of the Interbank Deposit Protection Fund, of the Italian Banking Association, of the Italian Factoring Association, of Factors Chain International. Member of the National Compensation Fund.

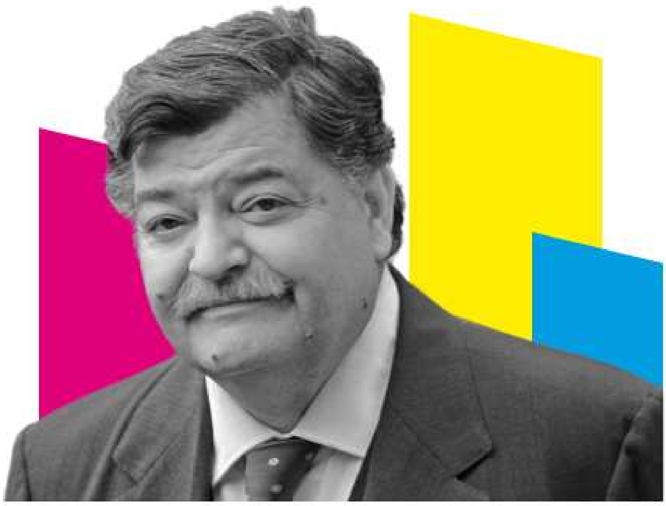
Contents

Non-Financial Statement

Letter from the Chairman and the CEO to Shareholders

Dear Shareholders,

we will remember 2017 as the year of many “first times”—some of which will make an impact also on the current year. The first bond issue, intended to broaden the Bank's funding structure; the move into the market for salary-backed loans, an instrument Banca IFIS is betting big on; the first acquisition in the market for pharmacies, which will lead Credifarma to join the Group in 2018 after securing approval from regulators; and finally, the first time the Bank set two changes in motion that will allow it to continue building its future, that is the spin-off of the NPL Area and the reverse merger of the holding company La Scogliera into the Parent Banca IFIS.



Chairman SEBASTIEN EGON FÜRSTENBERG

In addition, the Bank has continued growing in the sectors it operates in: specialised corporate lending, which is increasingly key for Italy's growth and the health of its economic fabric; the sustainable management of non-performing loans; and the collection of savings. The drivers that guide us in our day-to-day business are control of risk-corrected profitability, of liquidity and of absorbed capital. We want to provide our customers with the solutions they need quickly, clearly and transparently: this is why digital services are crucial and we are investing in them.

Another point to consider is that the Bank will continue growing in size in the medium/long term. Its plans go hand in hand with a proportionate increase in regulatory ratios. Once again, we raised our dividend—a sign of strength and a token of gratitude for our Shareholders, who continue appreciating our work and the projects the Bank is working on.

Before handing over to the CEO, I would like to thank all Shareholders, Customers, Suppliers, Collaborators, and Management for a year filled with challenges and projects, wishing the Banca IFIS Group a 2018 full of hard work, strong results, and increasingly ambitious goals.

Sebastien Egon Fürstenberg, Banca IFIS Chairman

2017 was a year in which relevant attention was addressed towards internal integration processes and efficiency improvements within the individual business units as well as through the streamlining of the corporate structure. The change in the core banking system, the adoption of a new CRM system at the Group level, and the launch of new web platforms - leveraging digital innovation to improve the relationship with the customer - had a significant impact on the Group's operations throughout the year. To make all this possible, we had to make considerable investments in human resources, providing training as well as looking for new skilled talents to join the Group.

CEO GIOVANNI BOSSI

The current market scenario and the search for new growth opportunities led the Bank to consider expanding into new business areas. The recent acquisition of Cap.Ital.Fin - which specialises in salary-backed loans - and the binding agreements entered into for the acquisition of Credifarma are aimed at providing the best possible service to more and more customers, be they individuals or SMEs.

During the year a lot of work was done to diversify funding sources and rationalise their cost, resulting in greater flexibility, easier access to funding, and stronger liquidity and capital ratios. Also the issuer rating received from Fitch contributed to this end.

The Group's goals for 2018 are consistent with those set for 2017: we will relentlessly seek to promote synergies, streamline operations, create value, and innovate.

Giovanni Bossi, Banca IFIS CEO

Methodological background

Italian Legislative Decree 254/2016, which transposed Directive 2014/95/UE[1] into Italian law, introduced the requirement for large companies or groups and public-interest entities[2] in Italy to disclose information relating to environmental, social and employee-related matters, respect for human rights, and anti-corruption and bribery matters that are material to each entity based on its business and characteristics.

These entities are required to prepare a Non-Financial Statement if they had more than 500 employees on average during the financial year and, at the reporting date, exceeded at least one of the following limits: total balance sheet exceeding 20 million Euro and/or total net revenue from sales and services exceeding 40 million Euro.

As a public-interest entity of a size that falls under the scope of said legislation, starting from the year 2017, the Banca IFIS Group publishes a consolidated Non-Financial Statement in accordance with Italian Legislative Decree 254/16.

This effort represents the next logical step in a process that has led the Group to voluntarily integrate information on its approach to sustainability into its reporting cycle starting with the introduction to the 2016 Consolidated Financial Statements.

The Non-Financial Statement for the year 2017 is prepared at the consolidated level by the Parent Banca IFIS S.p.A. and includes all entities consolidated line-by-line in the Consolidated Financial Statements[3] (for the purposes of this document, “Banca IFIS” or “Parent” means just the company Banca IFIS, whereas “Banca IFIS Group” or “Group” refers to the entire scope of consolidation).

Please see the Methodological Note in this document for more information on the reporting method, how indicators were calculated, any assumptions made, and the preparation process for the 2017 Non-Financial Statement.

---

[1] Directive 2014/95/EU, amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups”

[2] “Public-Interest Entities” means the entities set out in Article 16, paragraph 1, of Italian Legislative Decree no. 39 of 27 January 2010, that is: Italian issuers of securities admitted to trading on regulated markets in Italy and the European Union; banks, insurance undertakings as per Article 1, paragraph 1, letter u) of the Italian Code of Private Insurance; reinsurance undertakings as per Article 1, paragraph 1, letter cc) of the Italian Code of Private Insurance with registered office in Italy, and the Italian branch offices of non-EU reinsurance undertakings as per Article 1, paragraph 1, letter cc-ter) of the Italian Code of Private Insurance.

[3] For a detailed list of the entities included in the scope of consolidation, please see part A - Accounting Policies in the Notes to the Consolidated Financial Statements

Business model

Vision and values

Banca IFIS S.p.A. (Fitch BB+, outlook stable) is currently Italy's largest independent specialty finance player, operating in the following sectors: trade receivables, acquiring/selling & managing portfolios of non-performing loans, and tax receivables. The key elements of our strategy are the control of profitability adjusted for risk, liquidity, and capital absorption. Following the acquisition of the former Ge Capital Interbanca Group in November 2016, Banca IFIS has further diversified its business model, significantly increased its client base (i.e. Italian small and medium businesses), and expanded its range of products and services by leveraging the former GE Capital Interbanca Group's expertise in leasing and medium-term financing. The recent acquisition of Cap.Ital.Fin S.p.A., an Italian company specialising in salary- or pension-backed loans, underlines Banca IFIS's relentless commitment to identifying new market segments that fit its business model.

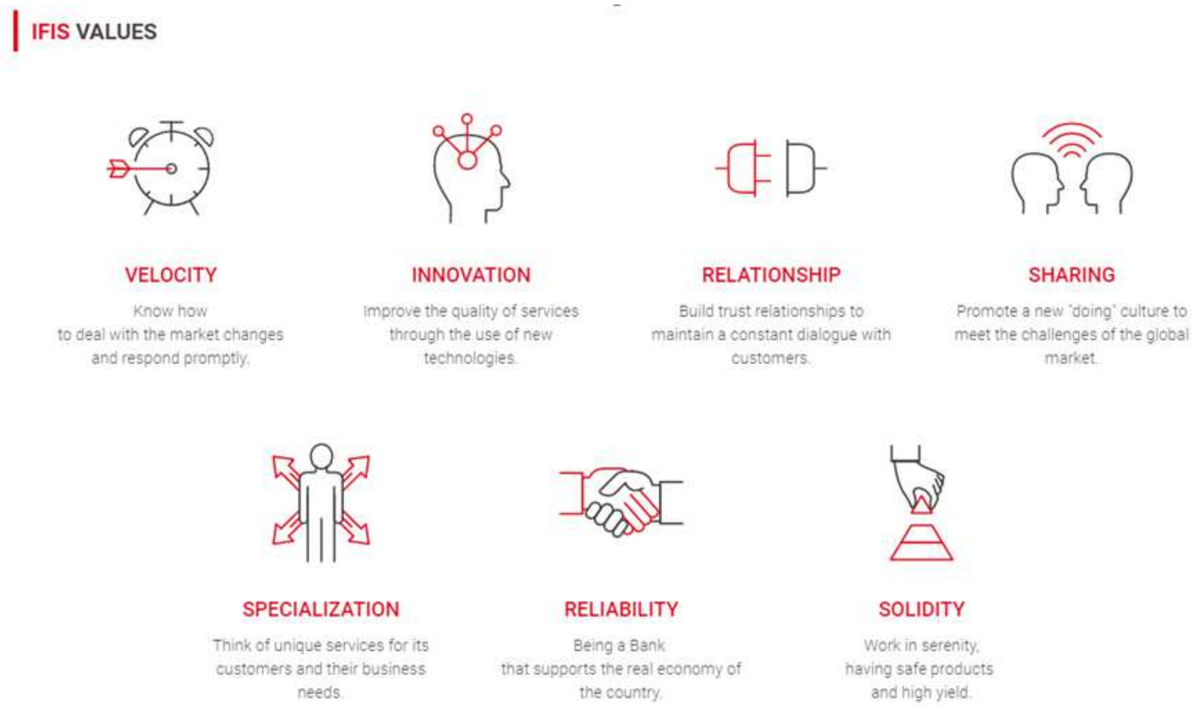
IFIS Vision

Banca IFIS believes only a bank that adds value to the operations of all economic players and is able to earn a fair profit from its work has the dignity to look forward and plan its future. Banca IFIS's operations are built around three key pillars that form the basis of the Group's work and all its businesses: control of profitability adjusted for risk, liquidity, and capital absorption.

IFIS Mission

Making the best possible use of the Bank's capital and liquidity to allow businesses and households, even in distress, to optimise their financial resources. Becoming Italy's reference provider of financial support to micro, small and medium Italian businesses—including at the international level. Allowing the largest possible number of borrowers to become once again creditworthy. Creating value from the savings of individuals and businesses with transparent and reliable proposals.

Values



Strategy

Banca IFIS seeks to strengthen its competitive position in the market for lending to small and medium businesses. The Bank aims is to increase its market share in the trade receivables, leasing, tax receivables, and distressed loan segments.

Concerning its competitive position, Banca IFIS has expanded its offerings through the acquisition of the “GE Capital – Interbanca” Group, which allowed it to start providing finance and operating leases, and bolstered its presence in the medium-term financing segment.

From an organisational perspective, the Bank will move forward with the plan to gradually streamline its corporate structure and make it more efficient—and it has already made progress towards this goal with the merger of IFIS Factoring and Interbanca, which will result also in the merger of IFIS Leasing into Banca IFIS in 2018. As for the acquisition and management of distressed retail loans, the establishment of IFIS NPL S.p.a. in late 2017 stems from the need to spin off all operations of Banca IFIS's current NPL Area into the new entity, which has applied to join the register of non-banking Financial Intermediaries pursuant to Article 106 of the Consolidated Law on Banking. IFIS NPL will allow the Banking Group to continue growing in the market for acquiring and managing non-performing loans, also by expanding into new segments or areas where the Group currently has no or little presence, creating value by improving the management of non-performing portfolios and acting as a systemically important Italian private Asset Management Company open to partnerships and integrations.

To complement its offerings, the Group also finalised the acquisition of Cap.Ital.Fin S.p.A., which operates in the retail lending market through the following products:

• CQP (*cessione del quinto pensione*): INPDAP or INPS pension-backed loans;

• CQS (*cessione del quinto stipendio*): salary-backed loans to public- or private-sector and government employees;

• DP (*delegazione di pagamento)*: salary or pension deductions.

STRATEGY PILLARS

SOLIDITY	Capital protection Maintaining high levels of solvency Appropriate capitalization to sustain the Bank's growth
LIQUIDITY	Diversification of financing sources Funding linked to retail funding and to assets allocated to the refinancing towards the Eurosystem Adjustment of the financial duration of funding to match loans
SUSTAINABLE PROFITABILITY	Risk-appropriate high-yield loans Real growth in profitability for all the Bank's sectors Choice of resource attribution based on yield proportional to risk

Group structure

Group history

1983 I.f.i.s. spa was born in Genoa

1989 IFIS shares are admitted at the "Mercato Ristretto" of Genoa and in 1990 also of Milan

2003 One year after the start of the baking activity, Banca IFIS is admitted at the MTA (Electronic Stock Market) of Milan

2004 Banca IFIS is admitted to the star segment of the Italian Stock Exchange

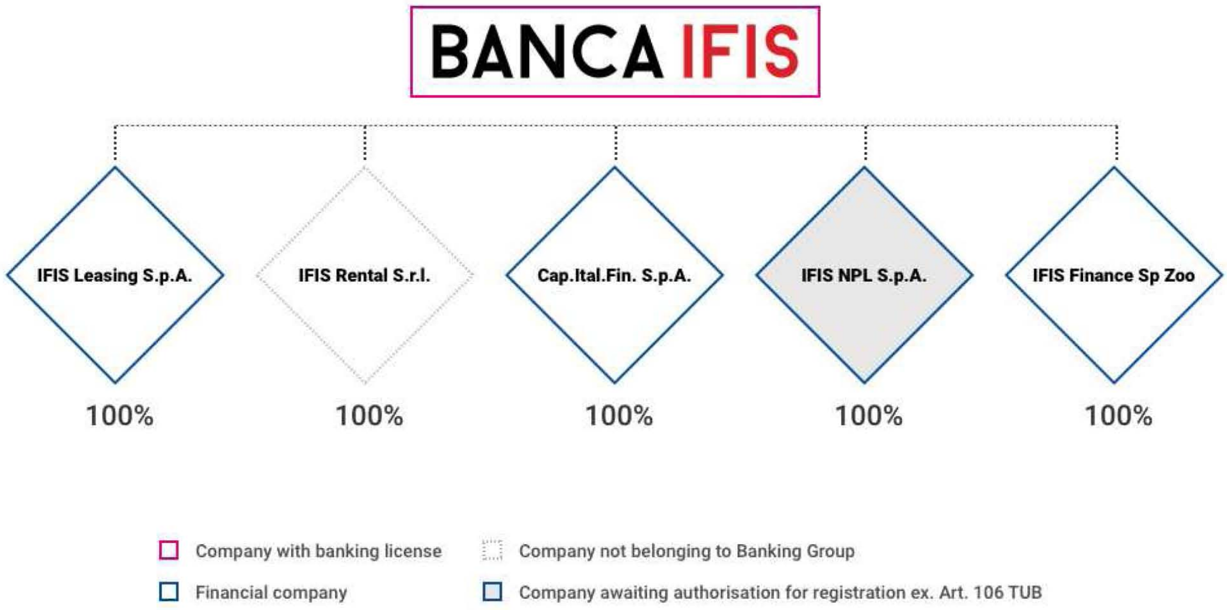
2008 rendimax, Banca IFIS's online deposit account, is launched

2011 Toscana Finanza (later to become the NPL Area of the Bank) and Fast Finance become business units of Banca IFIS Group

2016 With the acquisition of the former GE Capital Interbanca Group, the company enters the leasing and corporate banking sectors

2017 Mergers of IFIS Factoring and Interbanca into Banca IFIS Group. Success for the first Tier 2 bond issue; assigning of corporate rating by Fitch. Signing of agreement for the acquisition of Cap.Ital.Fin S.p.A.

Group structure



Businesses and Brands

BUSINESS E MARCHI

Banca IFIS operates through brands dedicated to different target customers

BANCA IFIS IMPRESA

business area dedicated to financing Italy's supply chains, it operates at both the domestic and international level. It targets SMEs that are not benefiting from the liquidity available in the market.
Banca IFIS Impresa provides credit to meet the widest range of business needs: from short-term trade receivables financing to corporate banking (medium/long term financing and structured finance), operating and finance leases, and structured finance. In 2017, we launched two new brands dedicated to specific business lending products: TiAnticipo, a digital financing service for companies that do business with Italy's Public Administration (www.tianticipo.it); Credito Agricolo, which provides financial support to farming businesses with products designed specifically for this sector (CAP advances, advances on grants).
Banca IFIS Impresa's supply chain finance solutions include:

FACTORING

with its factoring service, Banca IFIS has a direct presence in business-to-business procurement relationships, allowing the customer to finance its trade receivables and the debtor to enter into customised payment plans.

LEASING

Banca IFIS Impresa's Leasing operations, which include operating and finance leases, consist of:

- **Equipment leasing** designed to help businesses and resellers invest in equipment for the IT, telecoms, office, industrial, and healthcare equipment sectors;
- **Vehicle Leasing** dedicated to financing company cars and commercial vehicles for independent contractors and firms;
- **Equipment rental,** this solution for IT, office, industrial and healthcare equipment allows the corporate client to use an asset for a set period of time in exchange for a fee.

CORPORATE BANKING

support to companies in their organic or inorganic growth through extraordinary operations to reposition or expand their business, identify opportunities for alliances or integrations, promote restructuring processes, or introduce new investors and partners into the company. Corporate Banking consists of:

- **Medium/long-term financing**: support to the company's operating cycle through services ranging from the optimisation of financing sources to the support for productive investments;
- **Structured Finance**: legal and financial structuring and arranging of bilateral or syndicated loans. Controlling market risk through syndicated loans and the placement of units of structured finance arrangements on the market;
- **Workout & Recovery:** it manages the UTPs (Unlikely to Pay) and Bad Loans of all the portfolios of the segment's two business areas, as well as the runoff of project finance, shipping and real estate portfolios;
- **Special Situation**: it provides new medium- and long-term financing to support the financial recovery of businesses that managed to overcome financial distress.

FAST FINANCE (a BANCA IFIS)

operates in the market for tax receivables. It collects direct and indirect taxes and tax receivables, either performing or arising from insolvency proceedings.

BANCA IFIS PHARMA AND PHARMACIES

operates in the pharmaceutical and pharmacy market. As for the former, it focuses on the trade receivables of large local health services' suppliers, i.e. companies seeking to factor receivables due from Italy's National Health Service without recourse—thus protecting themselves from the risk of late payments. In the case of the latter, it provides the owners of pharmacies with short- and medium-term financing solutions.

BANCA IFIS AREA NPL AND CREDIFAMIGLIA

operate in the market for distressed retail loans in the consumer retail and micro-corporate sectors.
Banca IFIS NPL Area acquires/sells and manages portfolios of non-performing loans, while CrediFamiglia carries out judicial and non-judicial collection operations through several channels: call centre, in-house network, external network, Legal Factory, Legal Small Ticket.

rendimax contomax

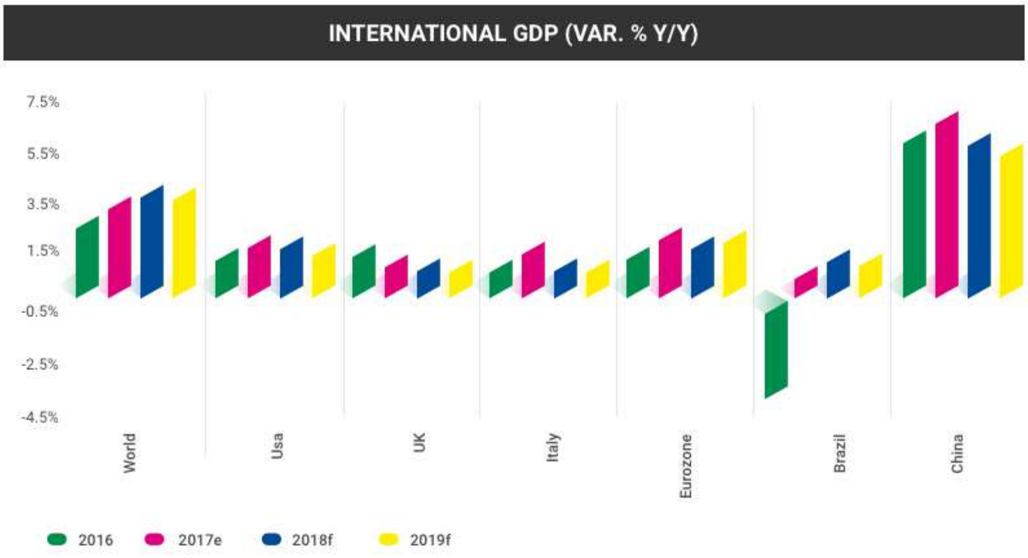
are the Bank's two retail funding instruments. They are included in "Governance & Services" for segment reporting purposes. Specifically, rendimax is the online savings account for individuals, companies and insolvency proceedings, while contomax is the online current account.

Context[4]

Global economic growth continued to firm up in 2017. Global output is estimated to have grown by 3,7% in 2017, 0,5% higher than in 2016. The pickup in growth has been broad based, with notable upside surprises in Europe and Asia.

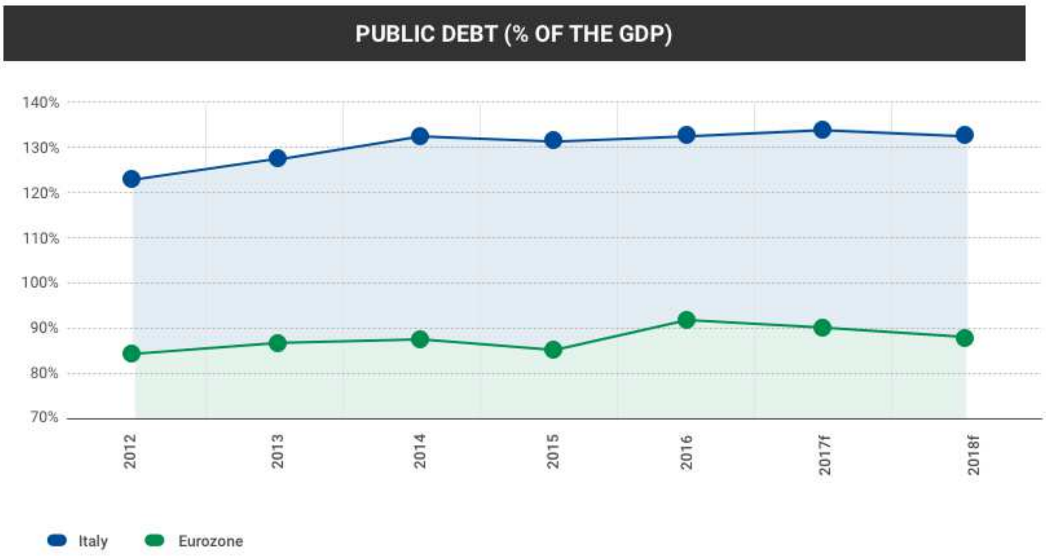
---

[4] Source: ISTAT, "Bollettino Economico Banca d'Italia", European Economic Forecast, FMI World Economic Outlook



Global growth forecasts for 2018 and 2019 have been revised upward to 3,9%. The revision reflects increased global growth momentum and the expected impact of the recently approved U.S. tax policy changes. Specifically, the latter are expected to stimulate activity, with the short-term impact in the United States mostly driven by the investment response to the corporate income tax cuts

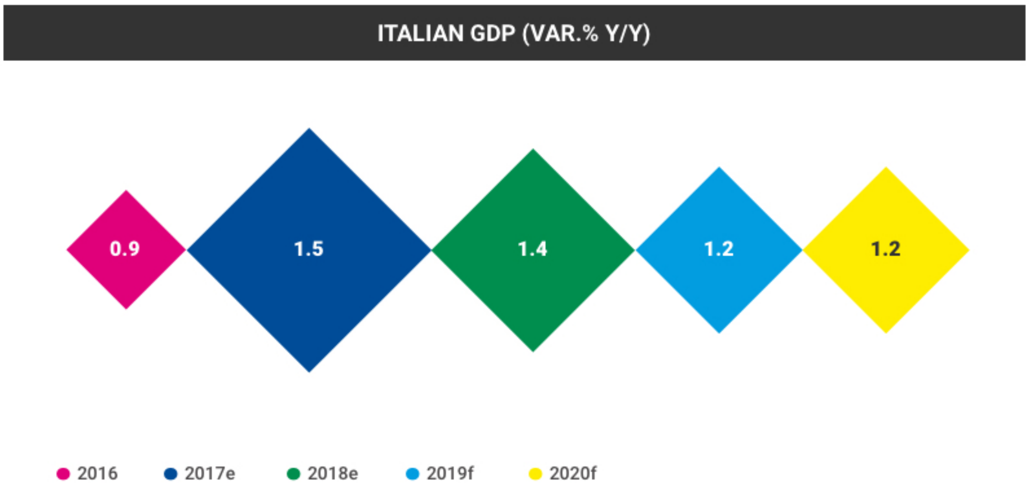
For the two-year forecast horizon, the upward revisions to the global outlook result mainly from advanced economies, where growth is now expected to exceed 2 percent in 2018 and 2019.



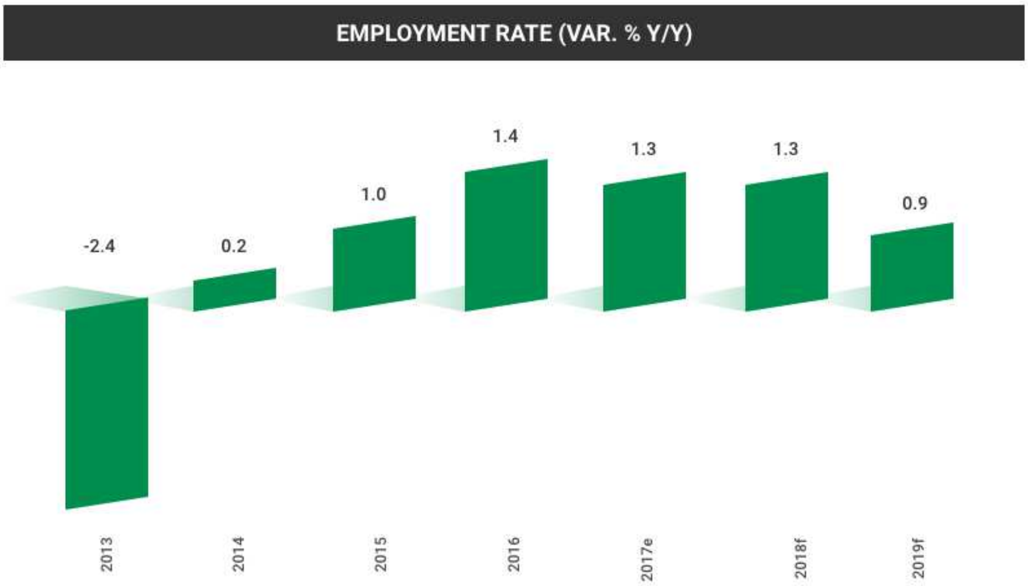
Risks to the outlook are essentially under control in the near term, but remain more significant in the medium term. There is potential for vulnerabilities to build up as a result of nationalistic policies. An increase in trade barriers and regulatory realignments in the context of these negotiations would weigh on global investment and reduce production efficiency.

In the euro area, growth rates have been marked up, especially for Germany, Italy and the Netherlands, reflecting the stronger momentum in domestic demand and higher external demand.

As for Italy, the consensus GDP growth forecast is 1,5% for 2017 (although the IMF estimates 1,6% growth in 2017 and 1,4% in 2018). All sectors of Italy's economy are showing moderately positive momentum on both a monthly and annual basis with the exception of the retail industry, which remains essentially stable. This is confirmed also by the positive trend in insolvencies, which are now back to 2011 levels.

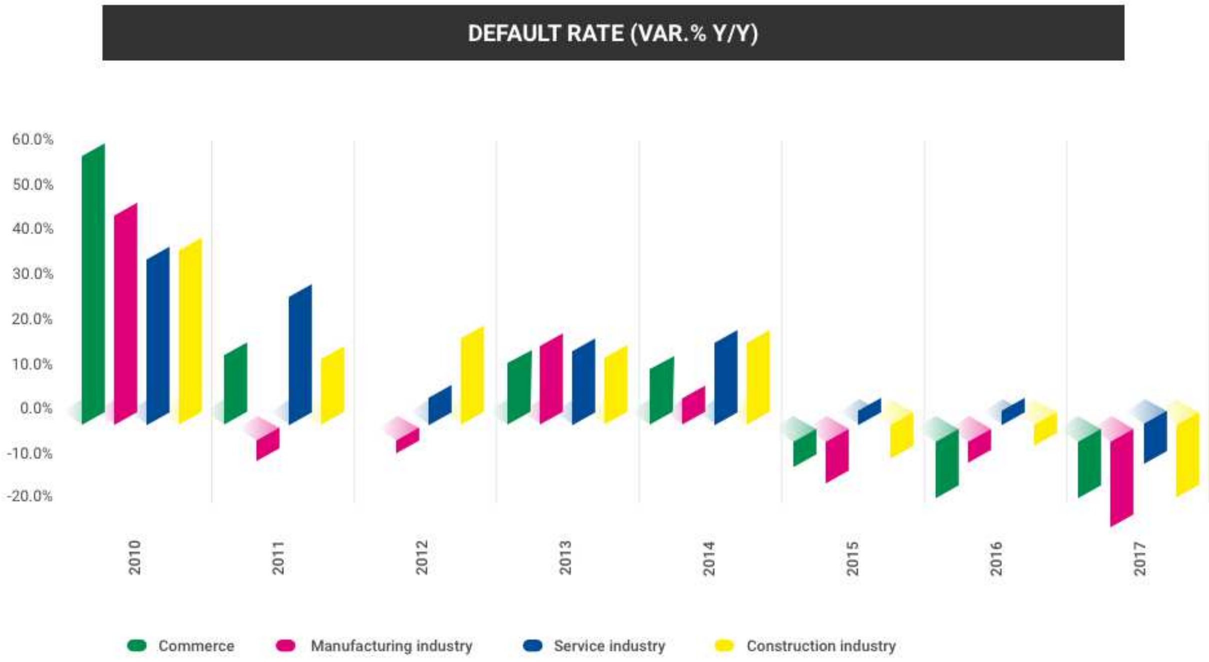


The employment rate's return into positive territory and the acceleration seen in recent years have brought the number of employed persons back to pre-crisis levels. However, work hours lag behind the pre-crisis peak by 4 percentage points, showing there is still some slack in the workforce.



In 2017, lending to the private sector rebounded—although the recovery concerned only loans to households. In the first nine months of 2017, bank lending fell to its lowest level in five years. An in-depth look at the data reveals a sharp decline in lending to small businesses and across all industries—and the trend was especially negative for the construction sector.

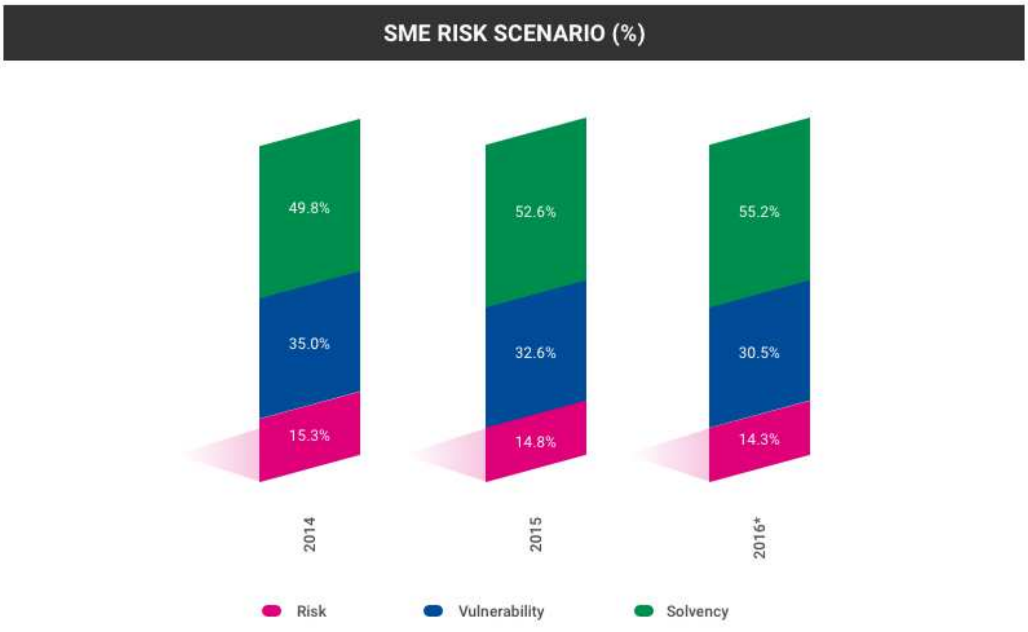
Despite the active servicing of non-performing loans and the improving risk profile for firms, lending to the production sector remains sluggish.

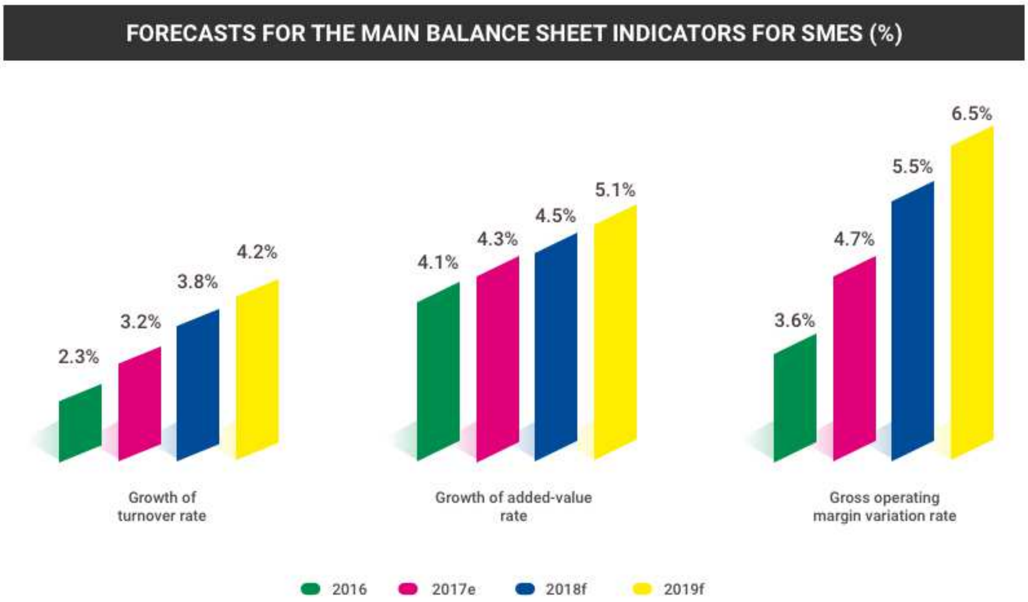


Reference markets[5]

SMEs: investments by small and medium companies are at their highest level since 2009 (+7,8%)—a trend consistent with the business risk analysis, which shows a decline in the percentage of SMEs included within the risk area: the crisis has driven the most “fragile” SMEs out of the market.

[5] Sources: Bank of Italy, ISTAT, “Bollettino Economico Banca d’Italia”, European Economic Forecast, FMI World Economic Outlook, Cerved proceedings and closures, Assifact and Assilea.



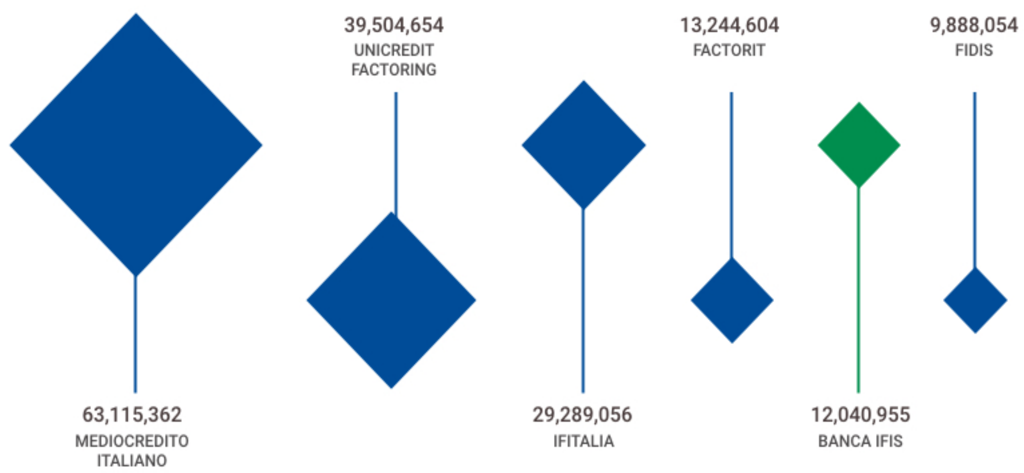


Factoring and short-term financing: factoring turnover continued growing in 2017, vaulting past 218 billion Euro (+8% compared to 2016). Meanwhile, short-term loans to businesses are on a downward trend, as lending declined by approximately 21 billion Euro compared to the prior-year period[6]. The fall in short-term bank lending coincided with the rise of alternative and more specialised forms of financing such as factoring, which accounts for a growing share of self-liquidating advances.

[6] Comparative data for the fourth quarter of 2016 relative to the fourth quarter of 2017.

SHORT-TERM FINANCING
NON-FINANCIAL COMPANIES – NEW TRANSACTIONS – BILLION EURO

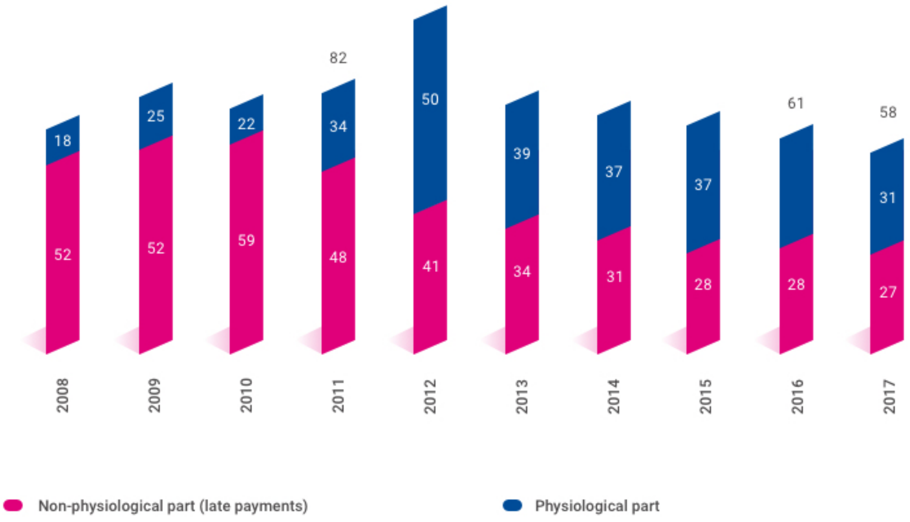
COMPETITOR SCENARIO 2017 – THOUSANDS €



Data provided by Assifact Members on a quarterly basis

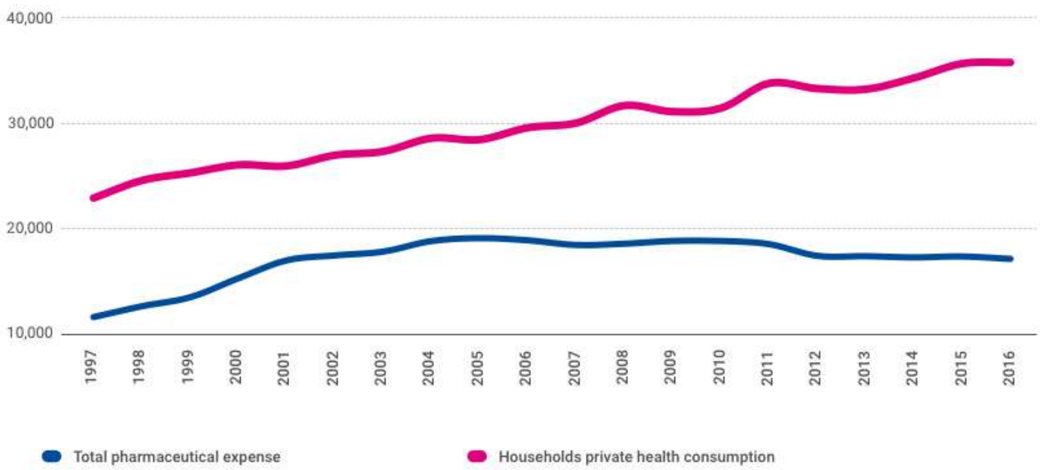
Public Administration receivables: as for the trade receivables due from Italy's Public Administration, payables due to suppliers were estimated at approximately 58 billion Euro at the end of 2017 (i.e. 3,6% of GDP), including 31 billion Euro in late payments.

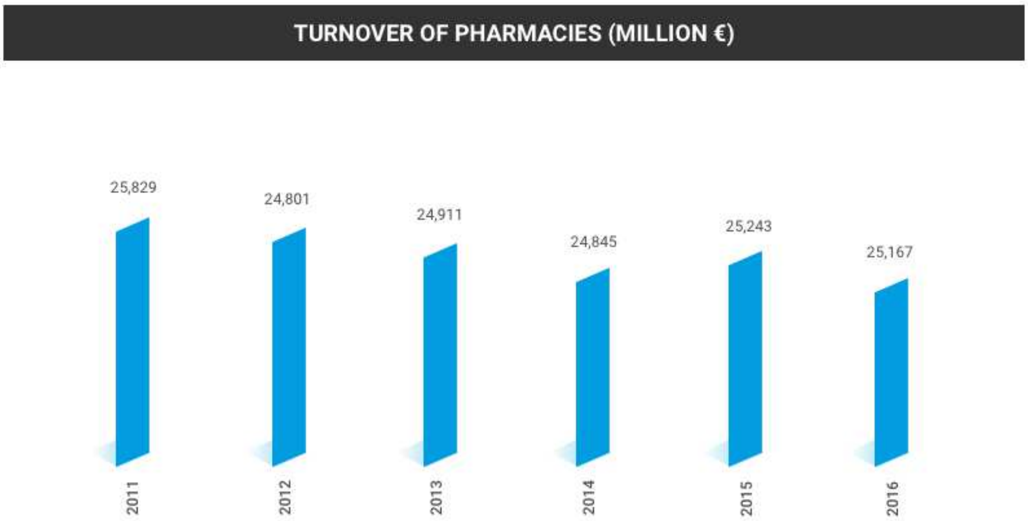
**ESTIMATION OF THE COMMERCIAL DEBT OF THE ITALIAN PUBLIC ADMINISTRATION
BILLION EURO**



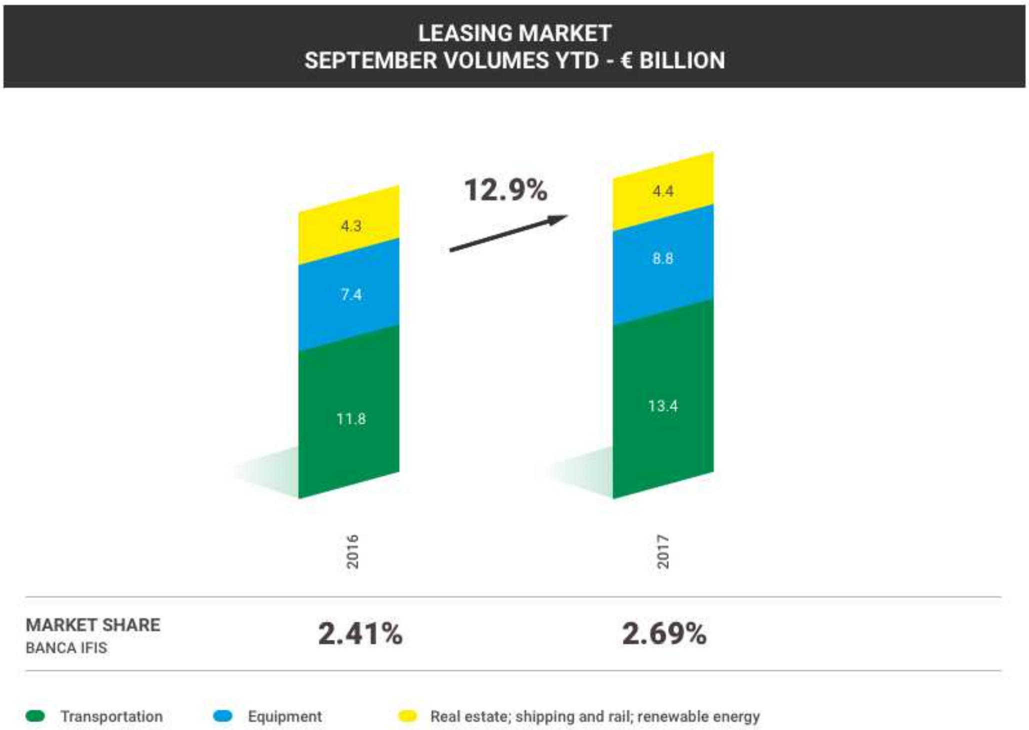
Pharma and Pharmacies: at the end of 2017, Italian pharmacies reported a slight decline in sales compared to the previous year. Pharmaceutical spending per capita amounted to 413 euro in 2016 at the national level, and the average pharmacy turnover amounted to approximately 1,3 million Euro.

**HOUSEHOLD PHARMACEUTICAL AND PRIVATE HEALTHCARE SPENDING
MILLION EURO**





Leasing: the market for finance and operating leases vaulted past 26 billion Euro in volumes, up 13% from 2016. The rise was driven by equipment leasing—buoyed by the investment incentives of the Industry 4.0 plan—and vehicle leasing, which recorded a double-digit increase thanks to the investments in new fleet vehicles and the growth of the "Transportation & Logistics" sector.



Corporate banking: medium/long-term loans were down overall (-29 billion Euro compared to December 2016) as a result of the decline in gross bad loans. The contraction in loans to businesses is confirmed by the data on new lending, which consistently fell throughout 2017: as a result, lending volumes have reached historic lows.

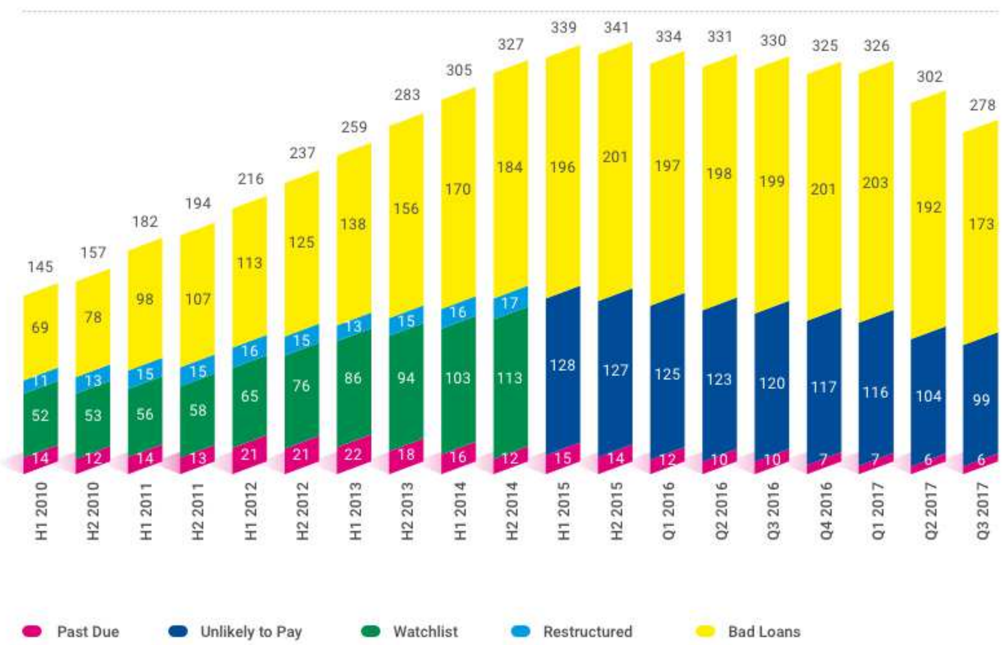
MIDDLE-LONG TERM FINANCING (VOLUMES)
NON-FINANCIAL COMPANIES – BILLION EURO

LOANS (FLOWS AND NEW TRANSACTIONS)
NON-FINANCIAL COMPANIES – BILLION EURO

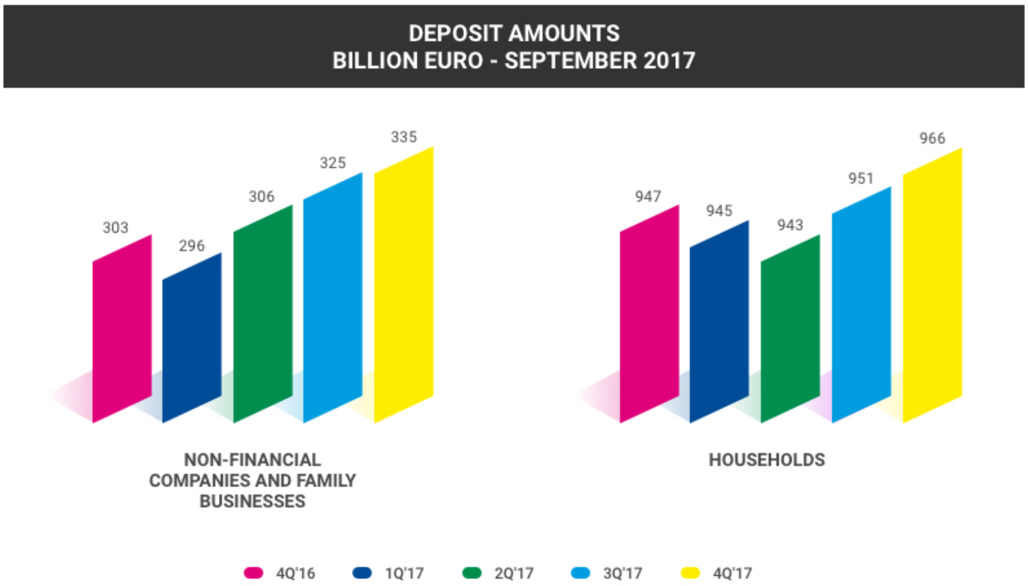
Tax Receivables: in 2017, 93 thousand companies filed for bankruptcy or voluntarily left the market (compared to 109 thousand at the end of 2013), down 5% from the previous year. The decline was more pronounced in bankruptcies (-11,3%), and arrangements with creditors (-29%). Voluntary liquidations decreased slightly (-4%), whereas receivership proceedings were up a significant 46%.

NPL: in 2017, more than 72 billion Euro worth of Non-Performing Loans were sold in Italy (64 transactions finalised, including 55 in the primary market). In the second and third quarters of 2017, banks' non-performing loans appeared to turn a corner, declining by 15% from the end of 2016—also thanks to the positive impact of the disposals of NPL portfolios. As a result, at September 2017 NPLs totalled 278 billion Euro (compared to 330 billion Euro in the same period in 2013). At the end of September 2017, UTPs amounted to 99 billion Euro, accounting for a remarkable 36% of non-performing exposures.

DETERIORATED ASSETS (BANKS AND CDP) - BILLION EURO



Funding: after growing in 2016, business and household deposits were essentially unchanged from 2017, ensuring a considerable amount of available liquidity.



Topics material to stakeholders

As required by the reference legislation, in 2017 Banca IFIS started a materiality analysis to identify the non-financial areas in which the Group generates the most material impacts and that can have a greater influence on the assessments and decisions of its stakeholders.

The analysis was carried out by taking several sources, both internal and external, into account to identify potentially material topics concerning the business model, the strategy, and the risks the Group is exposed to, the main sectoral issues, the interests and expectations of stakeholders, the impact of products, services and business relationships, and the main regulatory drivers[7].

These topics were grouped in six macro-areas, of which five coincide with those set out in Italian Legislative Decree 254/2016 (environmental topics, social topics, employee-related topics, topics related to the respect for human rights, and topics related to anti-corruption and bribery). The sixth area, which concerns "business topics", includes the topics that, although not expressly mentioned in the Decree, were found to be potentially material for the purposes of the Non-Financial Statement considering the characteristics of the Banca IFIS Group and the businesses in which it operates.

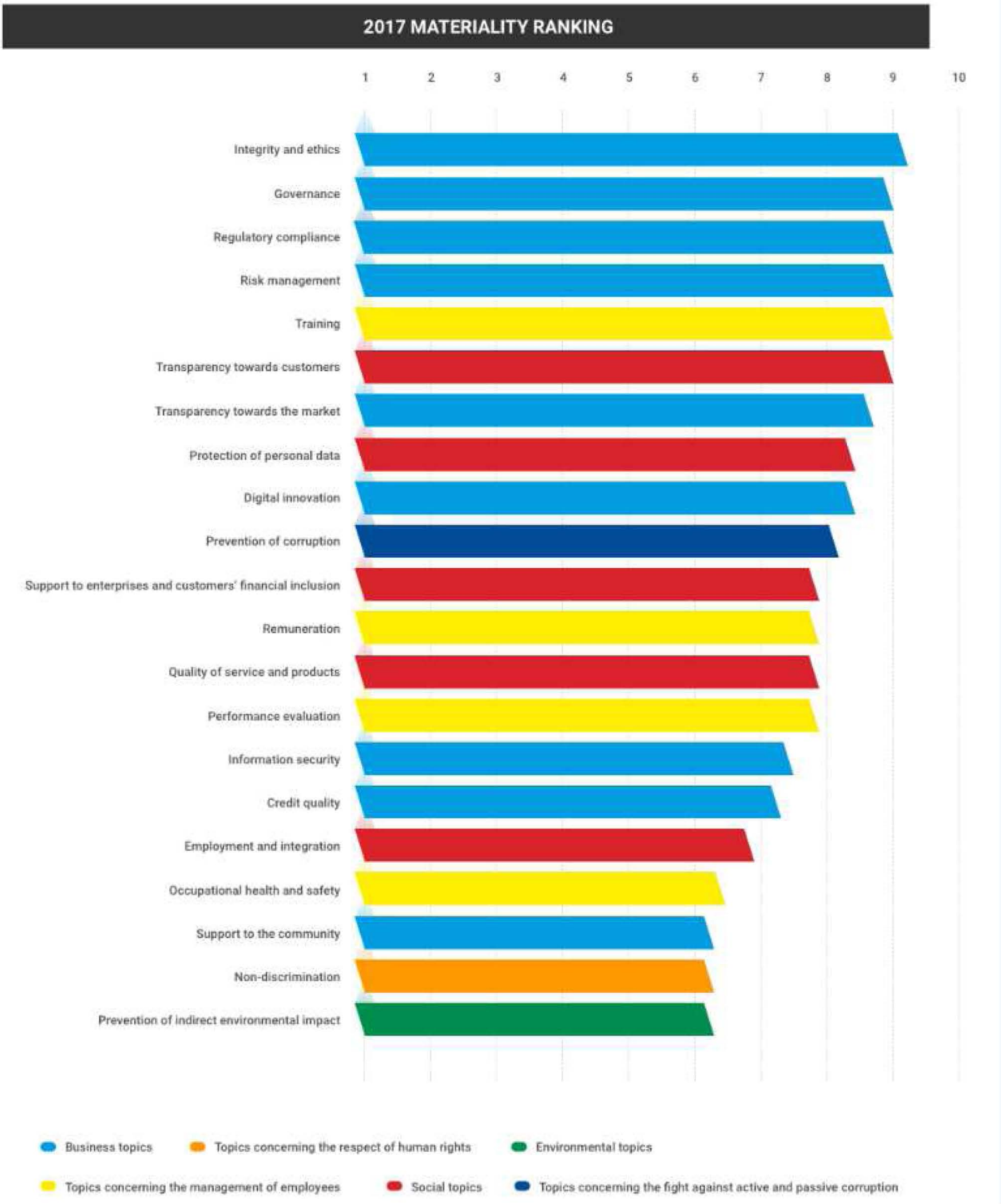
For the identified topics, we examined two dimensions of materiality:

- internal: materiality of each topic to the Banca IFIS Group based on its strategy, obligations, policies, existing management approaches, and the main risks identified, assessed by involving the Functions responsible for each topic and examining internal documentation;
- external: materiality of each topic to the Group's stakeholders, assessed by considering the positions and requests of certain stakeholders (institutions, economic, social and environmental sustainability standard setters, investors, and financial analysts), how often the topic concerned becomes a focus of attention at the sectoral and regulatory level, and the potential impacts the Group may generate through its operations, products and services.

---

[7] Factors to take into account when assessing the materiality of information according to Communication 2017/C 215/01 from the European Commission "Guidelines on non-financial reporting"

The analysis along these two dimensions allowed to "prioritise" the topics based on their overall materiality, i.e. the sum of their internal and external materiality, and select 21 material topics (pictured) to be the focus of the 2017 Non-Financial Statement.



The policies adopted, the management approach, and the key results related to each one of these topics are described in the rest of this document through dedicated paragraphs each one to a material topic and split across five chapters:

- Governance and risk management – this chapter addresses two ‘business’ topics related to the governance and risk management system, providing a description of the organisational and management model as well as the main risks associated with the topics discussed in the 2017 Non-Financial Statement.
- IFIS Integrity – this chapters describes how Banca IFIS operates with reference to topics that are key for the Bank and its stakeholders, including anti-corruption and the protection of personal data.
- IFIS People – this chapter describes the Bank's approach to human resources management and the respect for the right of non-discrimination
- IFIS Customers – this chapter focuses on social topics concerning the relationship with customers (quality and transparency) and the Bank's role in supporting the economy—as well as digital innovation, a topic that is core to Banca IFIS's business
- IFIS Responsibility – this chapter describes the Bank's approach to preventing indirect environmental impacts—specifically those deriving from operations with customers—and the support to the local community through donations and partnerships with schools and Universities.

The following topics were taken into consideration during the analysis but were not considered material for the purposes of the 2017 Non-Financial Statement:

- other business-related topics (e.g. supplier relationship management, brand reputation);
- topics related to environmental impacts generated within the Group's scope, even though a company operating in the photovoltaic sector is part of the Group (emissions, energy and water consumption, waste generation, raw material consumption, protection of biodiversity) or the supply chain;
- other employee-related topics (recruiting, diversity and equal opportunity, hearing and engagement, industrial relations, company welfare, flexibility and work-life balance);
- other social topics (social impacts within the supply chain, social impacts of products, services and business decisions);
- other topics related to the respect for other human rights.

Please see the Methodological Note in this document for more information on the method used for the materiality analysis and the reasons why the topics expressly set out in Italian Legislative Decree 254/16 were excluded.

Governance and risk management

Governance

BOARD OF DIRECTORS AND BOARD COMMITTEES

VICE CHAIRMAN
Alessandro Csillaghy de Pacser

CHAIRMAN
Sebastien Egon Furstenberg

CEO*
Giovanni Bossi

ADMINISTRATOR (LID)
INDEPENDENT**
Giuseppe Benini

ADMINISTRATOR
INDEPENDENT**
Francesca Maderna

ADMINISTRATOR
INDEPENDENT**
Antonella Malinconico

ADMINISTRATOR
Riccardo Preve

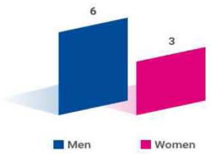
ADMINISTRATOR
Marina Salamon

ADMINISTRATOR
INDEPENDENT**
Daniele Santosuosso

Control and Risk committee — Designation committee — Remuneration committee

* The CEO is given the power for the ordinary administration of the company.
** Independent board members based on the requirements of the self-discipline code and TUF

Board of Directors composition by gender



GENERAL MANAGER

Alberto Staccione

BOARD OF STATUTORY AUDITORS

CHAIRMAN
Giacomo Bugna

EFFECTIVE AUDITOR
Massimo Miani

EFFECTIVE AUDITOR
Giovanna Ciriotto

SUBSTITUTE AUDITOR
Valentina Martina

SUBSTITUTE AUDITOR
Guido Gasparini Berlingieri

Independent auditors based on the requirements of the self-discipline code

AUDITING BUSINESS

EY S.P.A.

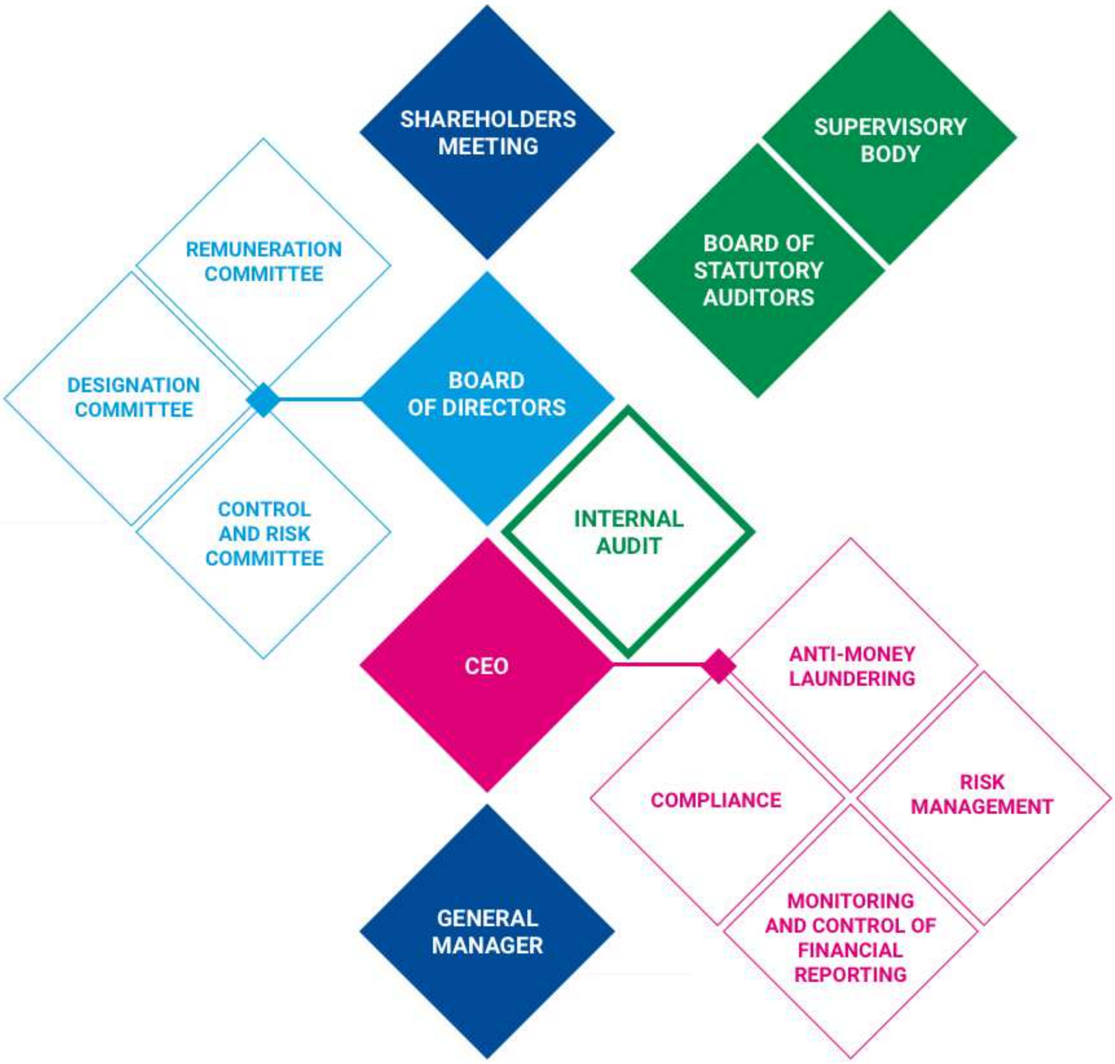
CORPORATE ACCOUNTING REPORTING OFFICER

Mariacristina Taormina

Banca IFIS is the parent company of the Banca IFIS Group and adopts the traditional administration & control model, considering it to be the most suited for ensuring the efficiency of operations and effectiveness of controls given its specific characteristics.

Under the model adopted by Banca IFIS:

- strategic supervision is performed by the Board of Directors;
- the CEO is responsible for the company's operations, and is aided by the General Manager;
- control is performed by the Board of Statutory Auditors.



For more details on the composition and responsibilities of the corporate bodies and the relevant policies, please see the 2017 Corporate Governance Report, whereas the roles and responsibilities of the Supervisory Body and the Control Functions are described in the following paragraph.

Business management model

Banca IFIS seeks to ensure conditions of transparency and fairness in conducting its business, so as to safeguard its institutional role and image as well as meet the expectations of shareholders and of those who work for and with the Bank: to this end, it has decided to adopt the organizational and management model as per Italian Legislative Decree 231/2001.

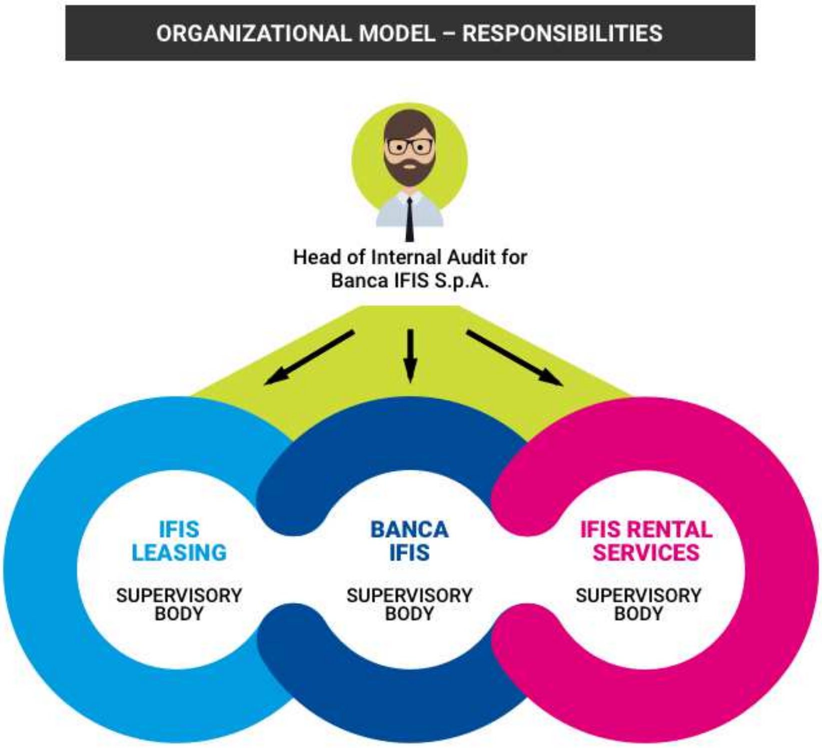
This is a complex set of principles, rules, provisions, and organisational charts with the relevant duties and responsibilities allowing to establish and duly manage a system to control and monitor sensitive operations in order to prevent the risk of committing the offences set out in Italian Legislative Decree 231/2001. The Model—adopted in 2004 and constantly aligned with the latest regulatory changes—is part of a broader control system that consists mainly of the Internal Control Systems and Corporate Governance rules of Banca IFIS. The same approach is adopted by the companies of the former GE Capital Interbanca Group, which, following a series of mergers, are currently represented by IFIS Leasing and IFIS Rental Services.

Among other offences, the Organisational, Management and Control Model as per Italian Legislative Decree 231/2001 covers crimes strictly related to non-financial topics, such as corporate offences (corruption and bribery), crimes of manslaughter and negligently causing serious or grievous bodily harm committed with breach of occupational health and safety regulations, receiving, laundering, self-laundering and using cash, assets or other benefits of unlawful provenance, and environmental offences, offenses related to trafficking and exploitation of persons and the employment of irregular foreigners.

Organisational Model – Responsibilities

For each of the three companies, monitoring the functioning of, and compliance with, the Organisational Models is the responsibility of the respective Supervisory Bodies, which have their own independent powers of initiative and control.

Banca IFIS 's Head of Internal Audit is a member of all Supervisory Bodies and currently plays a crucial role in coordinating, integrating and maintaining the information flows required from the Supervisory Bodies of the Group's companies.



Controls and audits

The Banca IFIS Group's internal control system consists of rules, procedures and organisational structures aimed at ensuring, among other things, adherence to the business strategies, the effectiveness and efficiency of business processes, and compliance of operations with the law, supervisory regulations, and the policies, procedures and codes of conduct adopted by the Group. All business operations are subject to audits by the functions or business Areas that own the various processes and operations (line controls or first line of defence), as well as by second line of defence functions (Risk Management, Compliance and Anti-Money Laundering) and third line of defence functions (Internal Audit)[8].

The Risk Management Function identifies the risks the Parent and the Group companies are exposed to and measures and monitors them on a regular basis through specific risk indicators, planning potential actions to mitigate material risks. The goal is to provide a holistic and comprehensive view of the risks the Group is exposed to, ensuring an adequate reporting to governance bodies. RM regularly reports to corporate bodies on its operations through the Dashboard—as well as, if required, to the Bank of Italy and Consob.

The audit work performed by the Compliance function (systematic audits and inspections) is based on the plans approved by the Board of Directors and seeks to evaluate the effectiveness of the required,

---

[8] For more information on the Internal Control System, please see Part E (Information on risk and risk management policies) of the Notes to the 2017 Consolidated Financial Statements as well as the 2017 Report on Corporate Governance and Shareholding Structure.

proposed or implemented organisational measures intended to manage the risk of non-compliance. Therefore, these audits apply to all areas for which said risk exists. The audit findings are formally presented in reports shared with the relevant business structures, which must provide feedback on the remedial actions identified and the relevant implementation timeline. The function monitors compliance with these requirements and regularly reports to the corporate bodies through the Dashboard—as well as, if required, to the Bank of Italy and Consob.

The Anti-Money Laundering function performs systematic second line of defence audits concerning the risk of money-laundering to ensure the relevant procedures are properly applied to operational processes, and develops Key Risk Indicators representing the most significant risk factors to be monitored. The function shares the audit findings and the action plan with the relevant Management. These audits and indicators are also displayed in the Dashboard on a quarterly basis and reported to the Board of Directors as well as, if required, to the Bank of Italy.

The audit work performed by the Internal Audit function concerns all processes and consists in regularly monitoring the application of all the Bank's operational policies, procedures and practices to identify potential anomalies or violations of internal rules as well as evaluate the effectiveness of the internal control system as a whole.

Internal Audit operates based on the plans approved by the Board of Directors and conducts unplanned audits if required. Audit findings are shared with the relevant function as well as second line of defence functions, which are involved because of either their expertise or their responsibilities on a case-by-case basis, and submitted to the Board of Statutory Auditors as well as the Control and Risks Committee. Internal Audit reports annually to the Board of Directors on the work carried out, as well as on a quarterly basis through the Dashboard—and, if required, to the Bank of Italy.

Grievance mechanisms

Banca IFIS adopts several mechanisms to receive feedback and grievances from key stakeholders, and especially employees, collaborators and professionals that work with the Group on a regular basis (including agents and other employees of the external networks of the NPL Area and the Leasing segment), as well as through complaints from customers or debtors. These mechanisms help management identify potential inefficiencies, anomalies or issues concerning business processes. Therefore, along with the controls, they help evaluate the effectiveness of the management approach to the various topics.

Whistleblowing

As the Parent company, Banca IFIS, in accordance with industry regulations and best practices, has established an internal system allowing to report actions, events or omissions potentially in violation of laws and internal procedures governing the operations of the Parent and its Subsidiaries with the guarantee that the personal data of the complainant and the alleged offender will remain confidential. The whistleblowing system is governed by the Group Whistleblowing Policy, which is part of Banca IFIS's Organisational Model and adopted by all the Group companies.

The Banca IFIS Group's employees, its collaborators, and licensed independent contractors working with the Group on a regular basis can file a report.

This report may concern any action or omission in breach of the rules governing the Group's operations that causes or could cause harm to the Banca IFIS Group. This includes, for instance, actions or omissions, either committed or attempted, related to criminal conduct or incidents in violation of laws and regulations, codes of conduct such as the Code of Ethics, or other company provisions that could result in disciplinary action and cause pecuniary damage to the Group, endanger the health and safety of employees or customers, or negatively affect the environment.

The reports can be submitted using different channels[9] and are handled by the Head of Internal Audit, who examines and investigates them based on the principles of impartiality, privacy, dignity of the employee and protection of personal data. After completing the investigation, the Head of Internal Audit formally submits his or her assessment to the Chief Executive Officer and the General Manager (or the Chairman of the Board of Statutory Auditors in the event of potential incompatibilities), who will decide what corrective actions need to be carried out.

Internal Audit prepares an annual report on the proper implementation of the process, including aggregate information on the findings of the audits carried out based on the complaints received, that is approved by the Board of Directors and made available to employees. In 2017, no reports were filed through the Whistleblowing system.

[9] The reports can be submitted using a dedicated e-mail address, second-class post or internal mail, in person to Banca IFIS's Head of Internal Audit, or through an application available on the company's portal (IFIS4YOU) as well as the institutional website (www.bancaifis.it)

WHISTLEBLOWING

PEOPLE WHO CAN MAKE A REPORT:

- Employees
- Partners
- Freelance professionals who work mainly and on a continuative basis for the Group

REPORTS CAN BE MADE THROUGH:

- Dedicated email
- Ordinary or internal mail
- In person to the Head of the Internal Audit
- Dedicated application, accessible both from the intranet and the website

THE HEAD OF INTERNAL AUDIT ANALYSES THE REPORTS AND VERIFIES THEM. THEN THEY MAKES THEIR EVALUATION OFFICIAL AND SENDS THEM TO:

- CEO
- GENERAL MANAGER
- CHAIRMAN OF THE BOARD OF STATUATORY AUDITORS

ANNUAL REPORT

Handling of complaints

Maintaining quality relationships with customers and constantly improving them is a necessary precondition to creating and distributing value over time. This is why the Group pays significant attention to complaints as a key source of information to identify potential issues concerning the relationship with customers, so as to address them in order to maintain high customer satisfaction and the company's reputation.

The complaint represents not only a useful instrument to improve the quality of products, services, and customer relationships, but also a way to monitor the conduct of the business functions and those that act on behalf of the Group (such as the members of the external networks of the NPL Area and Leasing segments), and thus keep the mutual trust between the Group and the Customer alive. Complaints can concern the quality of products and services, transparency, privacy, information security, and multi-channel instruments, as well as the respect for the principles of integrity and fairness on the part of the Group's employees or the members of the network, compliance with regulations, non-discrimination, and activities to support entrepreneurship and financial inclusion.

The complaints handling policy, updated in 2017 and applied at the Group level, sets the guidelines for handling the complaints received by the Group's companies in an appropriate and timely manner based on the principle of the fair treatment of customers and in accordance with applicable laws.

The goal of the complaints handling process is to handle in an appropriate and timely manner any grievance received from customers unsatisfied with the products and services provided or offered, taking corrective and preventive actions to prevent any problem from recurring in the future. These actions can consist in specific initiatives addressing the individual complaint or the activation of general solutions to address the causes underlying the individual complaint or multiple complaints concerning the same area.

The Group has set up an office dedicated to handling complaints (Complaints Office). This receives complaints and duly and impartially handles them, informing the business units concerned from time to time. The Complaints Office has a dotted-line reporting relationship to the Compliance function and operates according to the guidelines set by the latter.

In 2017, the Group overhauled its operational model for handling complaints by making it more efficient, redesigning processes and the IT system, and reviewing the organisational structure—also to take the ongoing streamlining of the Group's corporate structure into account.

Risk management

The Group's overall risk governance and management structure is governed by the Risk Appetite Framework and the relevant documents, which are constantly updated based on the evolution of the Group's strategic framework. Concerning the recent acquisition, Banca IFIS is currently aligning and integrating risk governance and management methods while taking into account the peculiarities of each business (factoring, corporate finance, leasing, NPL).

Banca IFIS has prepared a Taxonomy of Risks describing how it identifies the existing and/or potential risks the Group could be exposed to in pursuing its strategic goals as well as the tools for preventing and mitigating each type of risk.

The Parent carries out an initial identification of risks based on the list of the minimum risks laid down by supervisory regulations[10], adding any additional material risks emerged during the analysis of the business model and reference markets in which the Group's companies operate, the strategic outlook, operational methods, and the characteristics of loans and funding sources. To ensure the analysis reflects its specific business models, the Group has classified risks into macro-categories[11].

Policies and other reference documentation

- Risk Appetite Framework.
- Taxonomy and mapping of risks
- Group operational and reputational risk management policy
- Group liquidity risk management policy
- Group credit and concentration risk management policy
- Group financial misstatement risk management policy
- Group non-compliance risk governance and management policy
- Group policy for managing the risk of non-compliance with tax laws
- Group money laundering and terrorist financing risk management policy
- Internal policies concerning controls on risk activities and conflicts of interest towards related parties
- Group IT risk assessment and management policy.
- Safety Manual - Risk Assessment Procedure
- Organisational, Management and Control Model as per Italian Legislative Decree 231/2001
- Personal data protection document

Identifying risks and regularly updating the relevant taxonomy is the result of the joint work of second line of defence functions (Risk Management, Compliance, Anti-Money Laundering, Corporate Accounting Reporting Officer) and third line of defence functions (Internal Audit), which meet once a year to discuss whether to introduce new risk events and/or review the assessment of potential risks based on the risk management outcomes of the previous year. The Supervisory Body is responsible for identifying and adequately monitoring the existing or potential risks as per Italian Legislative Decree 231/2001 relative to actual business processes, constantly updating the mapping of risk areas and “sensitive processes”. In addition, a Risk Self Assessment (RSA) is carried out through interviews tailored to the structures concerned based on the level of operational risk inherent in their operations.

The Control and Risks Committee, which derives from the Internal Control Committee and is composed of members of the Board of Directors selected from among non-executive Directors, most of whom are independent, is responsible for supporting the Board of Directors in making assessments and decisions concerning the internal control and risk management system based on preliminary analyses[12].

---

[10] Circular 285/2013, Part One, Title IV, Chapter 3, Annex A

[11] The macro-categories were identified by taking into account also the ECB's Guidelines, letter dated 20.02.2017 signed by the Chair of the Supervisory Board Danièle Nouy, “Multi-year plan on SSM Guides on ICAAP and ILAAP”

[12] For more information, please see the 2017 Corporate Governance Report

Main risks related to non-financial topics[13]

Among the existing and/or potential risks to which the Group is or could be exposed (set out in the various documents that identify and assess the Group's internal risks[14]), it is possible to identify a number of risks, suffered and caused, related to the topics that Banca IFIS has identified as material to the Group and its stakeholders:

- **Governance**: the risk activities as per Italian Legislative Decree 231/2001 include failures of the internal control systems, failures concerning procedures and controls, and the failure to appoint officers. Overall, an opaque and ineffective corporate governance system would pose non-compliance risks to the Group and cause an increase in the level of operational risk as well as events attributable to procedural and organisational failures.
- **Risk management**: an ineffective management of risks, e.g. the inadequacy of existing controls, could cause a decline in the Group's profits or capital as well as changes in the competitive landscape (strategic risk)
- **Integrity and ethics**: this affects operational risk and concerns all those events that could result from a lowering of the ethical standards of the Group's employees and/or external collaborators, such as aggressive debt collection practices or instances of abnormal conduct on the part of the agents and debt collection companies of the NPL Area.
- **Prevention of corruption**: concerning the risk activities as per Italian Legislative Decree 231/2001, the Group identifies the risk events associated with corruption that could take the form of potentially sensitive activities, examples of offences, the relevant structures, and the main safeguards put into place.
- **Credit quality**: a complete or partial failure to maintain credit quality could affect credit risk, and specifically the risk of default, migration, dilution, and inadequate recovery, as well as residual risk—which is associated with a lower-than-expected effectiveness in applying standard credit risk mitigation techniques—and could have an impact on the assessment of counterparty and credit concentration risks. Credit quality could also have implications for the Group's exposure to strategic risk. This topic is also related to the risk of money laundering and terrorist financing.
- **Regulatory compliance**: all aspects associated with monitoring compliance affect the risk of non-compliance, which could lead to judicial or administrative sanctions as a result of violations of legal or corporate governance provisions.
- **Transparency towards the market**: any failures concerning this topic would give rise to the risk of financial misstatement, potentially causing economic and reputational losses as well as the loss of market share, and the risk of making false or incorrect statements.
- **Privacy protection**: this affects compliance risk as well as IT risk, a subcategory of operational risk that concerns dematerialised personal data.
- **Information security**: an inadequate level of information security would affect several aspects of operational risk, potentially causing harm to stakeholders, such as the tampering, deletion or corruption of data and the spread of viruses through the Group's IT architectures.

---

[13] For information and data on credit, market, currency, liquidity, and operational risks as well as the relevant management, monitoring, control and mitigation policies and techniques, please see Part E of the Notes to the Consolidated Financial Statements for 2017

[14] Specifically, the Group examined the following documents: Taxonomy and mapping of risks, Integrated Safety and Environment Manual, Personal data protection document, risk activities identified as part of the Organisational, Management and Control Model as per Italian Legislative Decree 231/2001, Risk Self Assessment results

- **Employee-related topics**, including occupational health and safety, remuneration, training, and performance review are included within operational risk. Potential risk events concerning occupational safety, such as the exposure to physical factors and the incorrect use of video terminals, are also included among the offences set out in the 231/2001 Model.
- **Non-discrimination**: Potential employment and professional discrimination practices are included within a sub-level of operational risk.
- **Topics related to the relationship with customers**, such as transparency and the quality of products and services, represent potential factors to be considered as components of operational risk, with potential implications also for strategic risk.
- **Digital innovation** and **support to entrepreneurship and financial inclusion**: these could have implications for the Group's exposure to strategic risk.

Finally, reputational risk applies to all material topics and all the Group's entities that maintain relationships with external parties as part of their operations. Therefore, in order to assess the level of reputational risk, the Group conducts a Risk Self Assessment, taking into consideration both internal and external factors that could damage the reputation of the Group and the stakeholders concerned from time to time.

The main external factors include the materialisation of operational risk or other risks not adequately monitored (e.g.: market, liquidity, legal, strategic risks), the violation of laws and regulations and corporate governance rules (such as the Code of Ethics), an ineffective or incorrect management of internal or external communication, and the conduct of management, employees, and collaborators. External factors can refer to comments and discussions in the media and on social networks, blogs, or other digital communication tools concerning information or opinions detrimental to the reputation of the Group or its Companies.

Reputational risk can affect different kinds of stakeholders. For instance:

- customers: declining trust in the Bank because of, for instance, inefficient operational practices or sales abuses;
- employees and collaborators: decline or loss of trust in/respect for the company among employees and collaborators;
- shareholders and investors: decline or loss of trust in/respect for the company among shareholders and market participants because of, for instance, the alleged inability to deliver satisfactory results, conduct inconsistent with ethical standards, perceived lack of managerial integrity, etc.;
- local community and society: decline or loss of trust in/respect for the company among local communities and opinion makers;
- Supervisory Authorities: decline or loss of trust in/respect for the company among Supervisory Authorities due to omissions or negligence deriving from the failure to comply with legal and regulatory obligations;
- suppliers and counterparties: decline or loss of trust in/respect for the company among suppliers and counterparties.

IFIS Integrity

Integrity and ethics

Banca IFIS and the other Group companies strive to develop and promote their corporate culture and values both within and without their organisations. The Code of Ethics, a key part of the Organisational Model as per Italian Legislative Decree 231/2001, outlines the set of rights, duties and responsibilities of the Group's companies towards all the parties it works with, establishing rules of conduct to be kept in mind during day-to-day operations as well as reference standards and behavioural norms aimed at strengthening business decision-making processes and guiding the conduct of all employees.

Policies and other reference documentation

- Code of Ethics
- Organisational, Management and Control Model as per Italian Legislative Decree 231/2001

NPL Area

- Credifamiglia Agent Manual
- Credifamiglia Debt Collection Company Manual

Leasing

- Operational Procedure for the Acquisition, Classification and Management of third-party representatives

In accordance with the principles laid down in the Code of Ethics, all Group employees must behave ethically in their relationships with colleagues, customers, debtors, suppliers, competitors, and public institutions. Illegal or unethical behaviour, including with reference to legal provisions, codes and regulations adopted by the Group, is not acceptable.

The Code of Ethics[15] is the "manifesto" of the corporate culture of Banca IFIS and the other Group companies. It is intended to provide information/training to Employees as well as promote said culture among all stakeholders. Making sure that the Organisational Model and the Code of Ethics are effective requires promoting a "culture of control" among all employees and raising the awareness of all structures concerned. This is why the Group trains employees on the contents of the Organisational Model pursuant to Italian Legislative Decree 231/01 and the Code of Ethics.

As far as the Code of Ethics is concerned, the Supervisory Body is responsible for, among other things, monitoring compliance with it and its implementation, taking disciplinary action if required, coordinating the drafting of rules and procedures to implement it, promoting a regular review of the Code and its implementation mechanisms, and reporting to the Board of Directors on the work carried out and the problems concerning the implementation of the Code of Ethics.

Employees and collaborators can report concerns about any behaviour not consistent with the principles and standards of conduct set out in the Code of Ethics through the "Whistleblowing" mechanism, which ensures that the identity of the complainant as well as the alleged offender will remain confidential (more details in the Governance and risk management chapter).

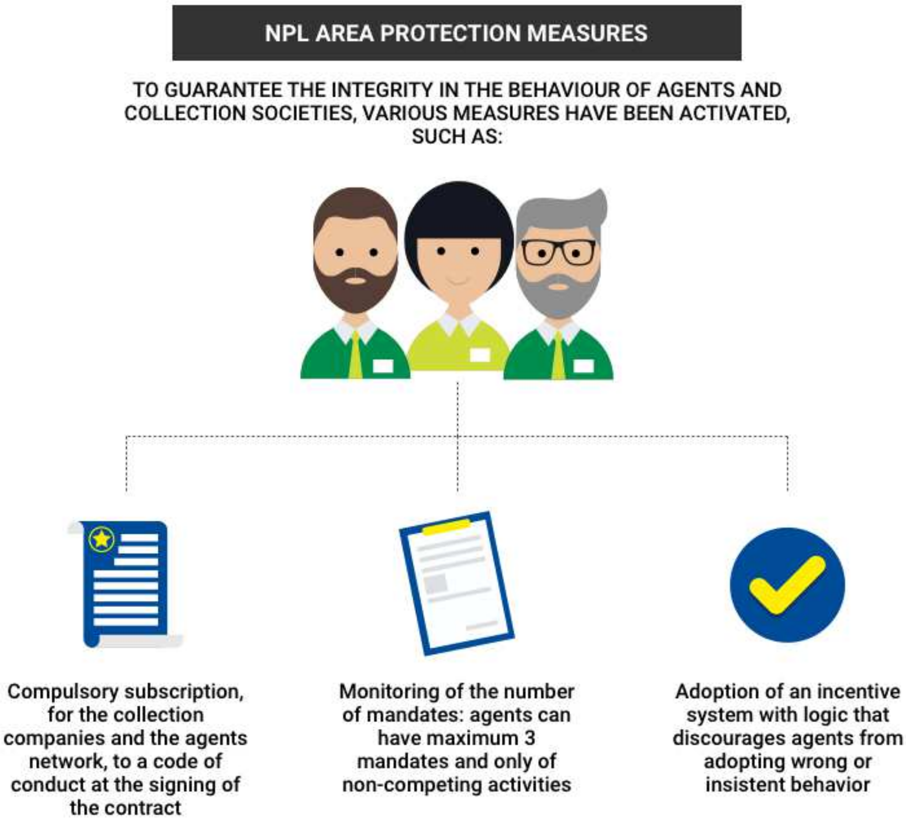
Besides establishing rules of conduct for its own employees, the Banca IFIS Group considers it crucial to ensure the integrity of the conduct of the external agents through whom it operates in the NPL and Leasing segments.

For instance, the NPL Area takes several precautions to ensure the integrity of the behaviour of debt collection agents and companies, including:

- requiring debt collection companies and agents to sign a code of conduct upon finalising the agreement;

[15] Approved by the Parent's Board of Directors, it became effective on 1 December 2004 and was updated in December 2016 to extend its application to the Group's entire scope.

- controlling the number of mandates: agents can have up to three mandates, and only for non-competing activities;
- adopting an incentive scheme that discourages agents from engaging in inappropriate or persistent behaviour

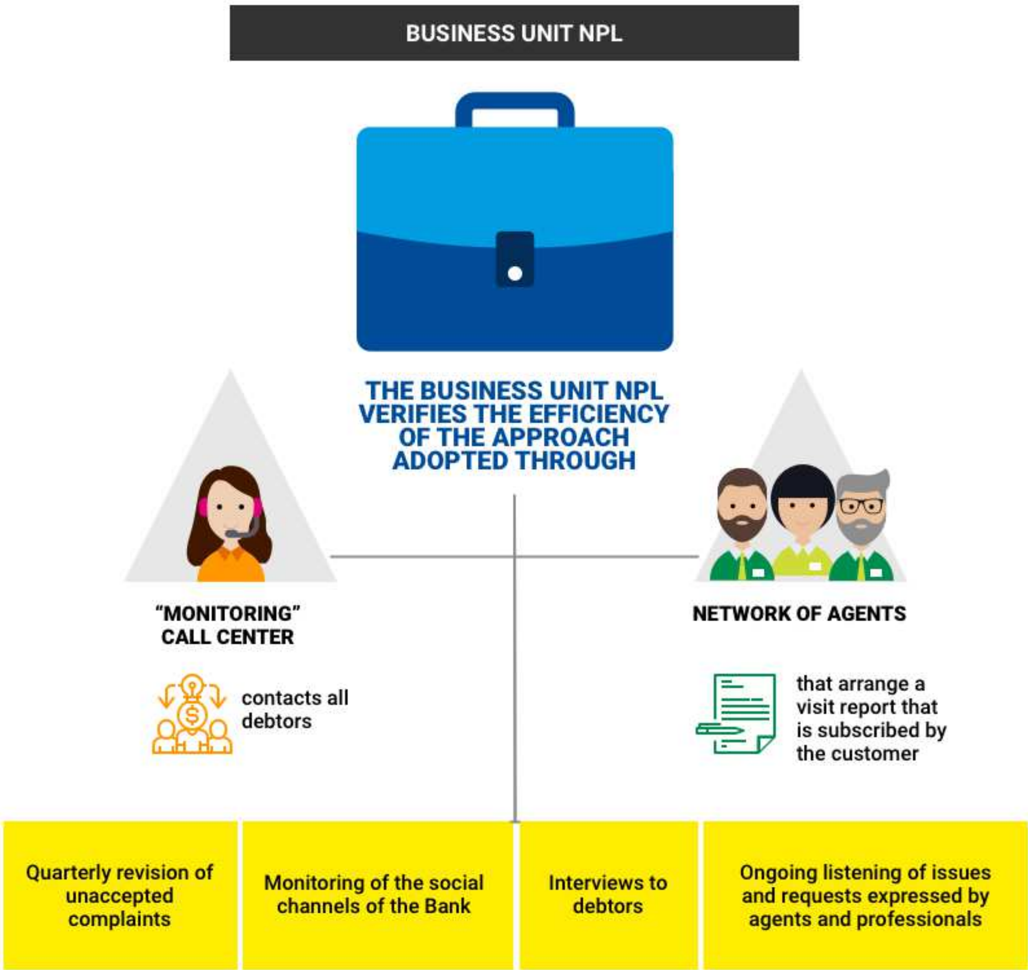


Concerning the NPL Area's call centre dedicated to phone collection operations, in 2017 the Bank launched a project to strengthen the service by increasing the number of available resources, improving the internal organisation of work, and using tools to constantly monitor and analyse performance. One of the objectives is to contain the risk of “aggressive” behaviour or unfair business practices on the part of employees.

The NPL Area uses different methods to evaluate the effectiveness of the adopted management approach:

- inquiries by the “monitoring” call centre—separate from the one dedicated to collection operations—which contacts all customers that have successfully repaid their debts thanks to the proposed settlement plans, as well as a sample of customers with whom an agreement has not been finalised, so as to ensure the members of the network acted with fairness and integrity;
- requiring agents to prepare a “Meeting report” at the end of each visit with a customer describing what transpired during the meeting and any agreements reached. This report must be signed by the customer, so as to keep a transparent and objective record of any agreements reached;

- reviewing any rejected complaints on a quarterly basis to identify potential emerging problems or issues of increasing interest to customers, so as to define the necessary corrective actions;
- constantly monitoring the Bank's social channels;
- interviewing customers that have successfully repaid their debts;
- constantly listening to the grievances and needs of network agents.



Prevention of corruption

> **Policies and other reference documentation**
>
> - Code of Ethics
> - Organisational, Management and Control Model as per Italian Legislative Decree 231/2001
>
> ***Leasing***
>
> - Operational Procedure for the Acquisition, Classification and Management of third-party representatives

The Banca IFIS Group has adopted guidelines laid down in the Code of Ethics and the Organisational, Management and Control Model as per Italian Legislative Decree 231/2001 to prevent the risk of committing corruption and bribery.

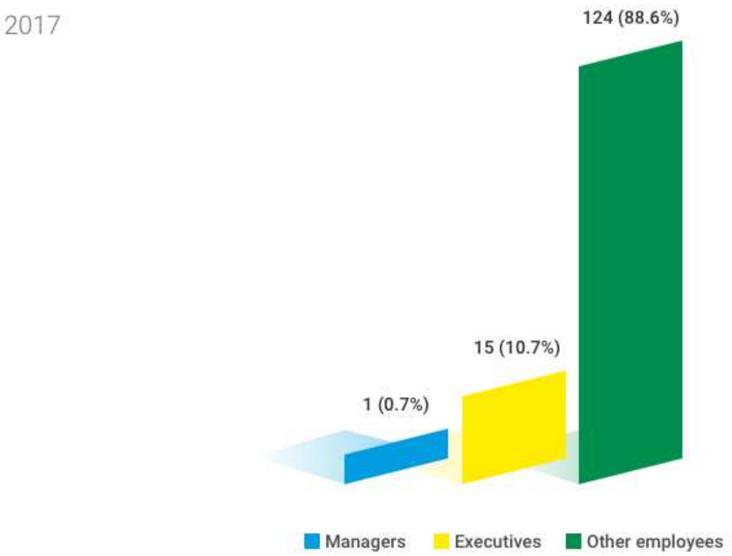
The Code of Ethics specifies that, when dealing with the Italian Public Administration, it is prohibited to promise or offer government officials or employees payments or benefits to promote or advance the interests of the Group when finalising agreements, for the purposes of the award or management of authorisations, when collecting receivables—including due from tax authorities—during inspections or audits, or as part of judicial proceedings. Anyone either asked for or offered benefits by government officials shall immediately consult with their supervisor and the Supervisory Body.

Banca IFIS's Organisational, Management and Control Model as per Italian Legislative Decree 231/2001 covers the following corruption-related offences (see figure).

All employees are required to know and comply with anti-corruption rules, including with reference to the table attached to the Model that specifically governs potential sensitive activities as well as the main structures and safeguards put into place in terms of policies, internal rules, and control structures.

The Group ensures that all employees receive adequate training on anti-corruption policies and procedures on a regular basis and in case of regulatory changes. In 2017, the Group provided 630 hours of anti-corruption training to 140 new hires, while the other employees already received said training in previous years.

NUMBER OF EMPLOYESS TRAINED ON PREVENTING CORRUPTION BY GRADE



HOURS OF TRAINING ON PROCEDURES AND MEASURES AGAINST CORRUPTION

2017

630

The Organisational, Management and Control Model as per Italian Legislative Decree 231/2001 of Banca IFIS specifies that the structures responsible for monitoring the commission of potential corruption-related offences are the second and third line of defence functions, the Supervisory Body, and the Board of Statutory Auditors.

In 2017, there were no incidents of corruption or legal cases brought against the employees of the Group or the external networks.

Regulatory Compliance

Compliance with regulations is one of the Group's priorities and is supervised by the Compliance function, which is directly responsible for managing the risk of non-compliance with the most important regulations, such as those concerning banking and financial intermediation operations, the management of conflicts of interest, transparency towards customers, and, more generally, consumer protection laws, as well as with regulations for which there is no specialised supervision within the Bank.

Policies and other reference documentation

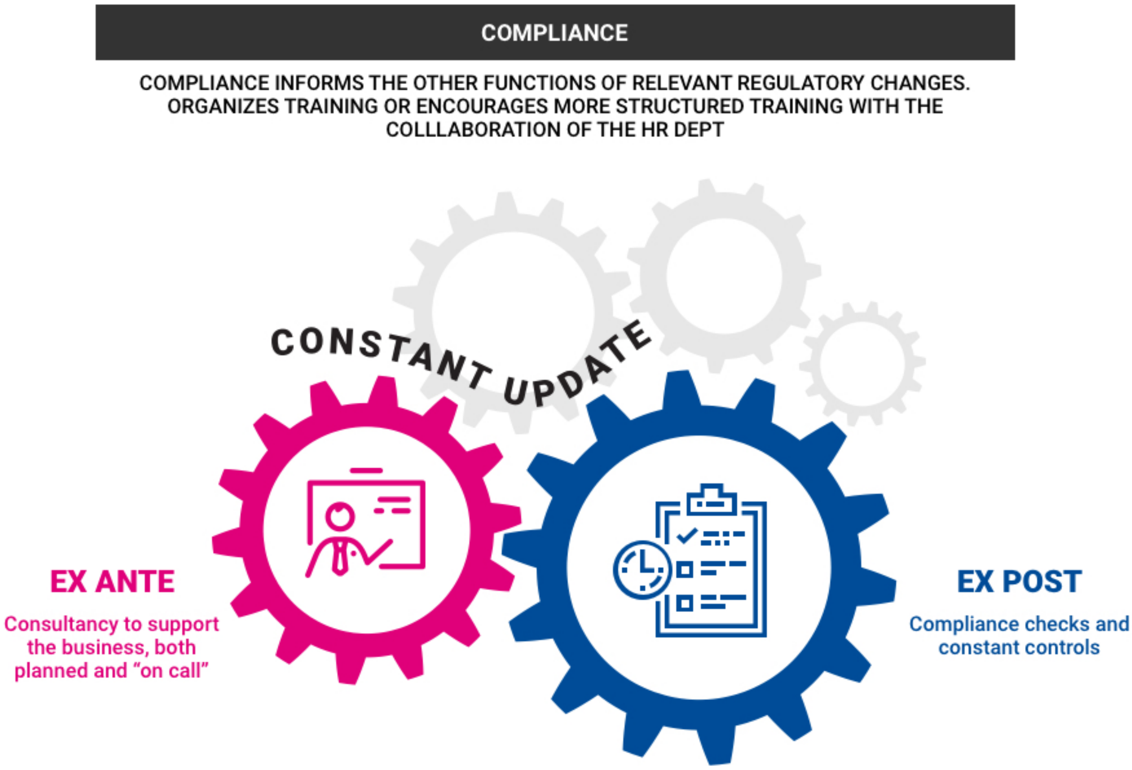
- Parent Company Compliance Rules
- Group policy for managing the risk of non-compliance with tax laws
- Group financial misstatement risk management policy
- Organisational Procedure to ensure compliance with external and internal laws and regulations concerning the IT system
- Policy for approving new products and services, starting new operations, and entering new markets
- Group guidelines on the Internal Control System
- Privacy guidelines

Concerning the regulations for which there is specialised supervision (e.g.: occupational safety or personal data processing), the responsibilities of the Compliance function can be adjusted, for instance by making it responsible for coordinating methods, so that it can provide the Corporate Bodies with a comprehensive view of the exposure to the risk of non-compliance. In any case, the function, at a minimum and together with the relevant specialised structures, is responsible for defining non-compliance risk assessment methods, identifying the relevant procedures, and reviewing whether these are adequate.

The Compliance function operates using two types of approaches:

- ex ante: the function provides advice to support the business either as planned, on regulatory topics that are identified and updated under a risk-based approach and in line with the Group's Strategic Plan, or when called upon for specific needs (e.g. New products or operations)
- ex post: the function conducts compliance audits in accordance with the Annual Compliance Plan as well as systematic inspections, whose findings are shared with the functions concerned, reported to the BoD through the Dashboard, and notified to the Bank of Italy.

In addition, when starting a major project (such as acquisitions or the launch of new products or operations), the Compliance function actively participates by providing operational and other recommendations on how to properly manage the risk of non-compliance, for instance in terms of precautions and controls to be implemented, regulations to consider, and monitoring actions to be taken.



To promote a culture of respect for the law at all organisational levels, in 2017 the Group provided refresher courses and training programmes to employees to make sure they acquire and develop the knowledge necessary to comply with the law, internal rules, and industry regulations. Compliance informs the structures concerned of any regulatory changes deemed significant, and either provides training or encourages more comprehensive training initiatives by involving the Human Resources function.

In 2017, there were no judicial or administrative sanctions against the Bank and/or its representatives, while Italy's Banking and Financial Ombudsman found against the Bank in 24 cases concerning complaints brought by customers, of which 6 were filed in 2017 and the rest in prior years. The complaints concerned exclusively receivables included in the run-off CQS portfolio deriving from the acquisition of the former GE Capital Interbanca Group.

Credit quality

Credit quality is closely associated with financial strength, which is key for the sustainability of the Group's business model and represents one of the pillars of the 2017-2019 Strategic Plan. The quality of credit and counterparties can significantly affect the Bank's share price, credit rating, dividends, and financial position—all of which are material to shareholders, financial analysts, ratings agencies, lenders, and Supervisory Authorities—as well as customer trust in the Bank's ability to service its obligations—which is especially important for the retail customers of the Rendimax and Contomax business lines.

For Commercial Credit and Lending, the company's commitment to protecting capital strength and credit quality translates into three levels of counterparty monitoring, aimed at preventing both insolvency risks and any involvement in transactions with critical repercussions in terms of reputation:

- automatic checks on individuals and legal entities, in order to ascertain the presence of any potential clients on "watch lists" (terrorism, embargos, etc.) or lists of "Politically Exposed Persons", plus – in relation to the level of risk – an analysis of press reports carried out by the Anti-Money Laundering function;
- analytical assessment by the Transaction Evaluation and Counterparty Evaluation teams, of clients, assigned clients and receivables transferred, and a delegation system for the assumption of credit risk based on the amounts and risk classes involved;
- continuous dialogue with the national network, which may provide reports and feedback on potential clients.

Policies and other reference documentation

- System of delegated powers;
- Group money laundering and terrorist financing risk management policy
- Anti-Money Laundering Manual

Trade receivables and Lending

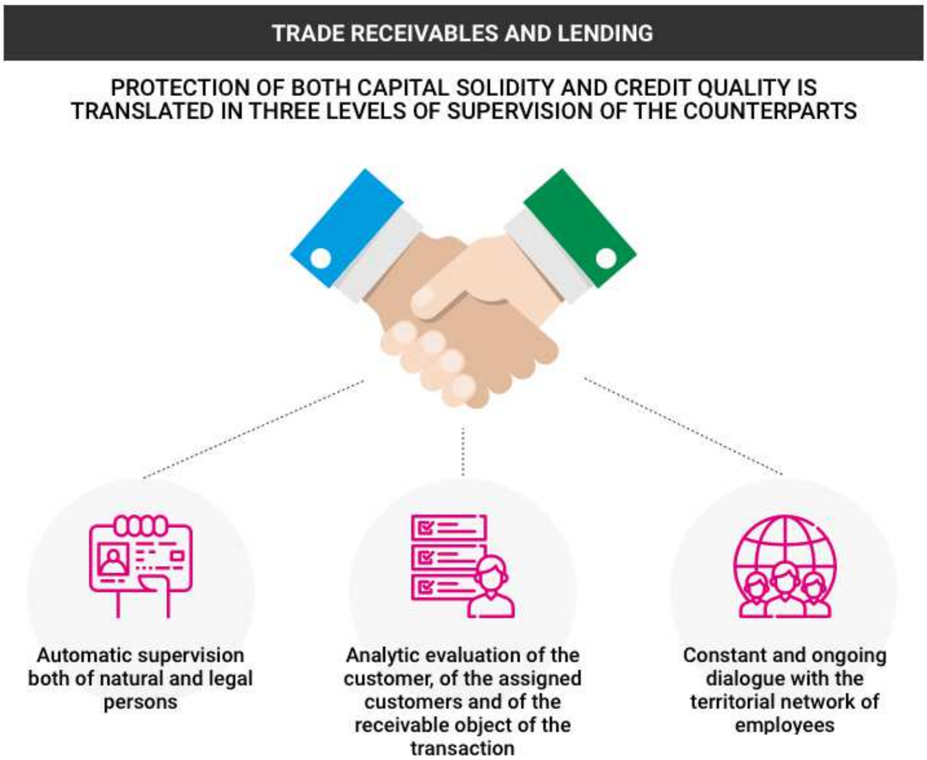
- Lending procedure
- Ordinary credit management policies (specific for BU Banca IFIS Impresa Italia, BU Banca IFIS Impresa International, BU Farmacie, BU Pharma)
- Policy for managing portfolios of receivables purchased outright and due from Public Administration entities
- Ordinary debt collection and monitoring policy
- Group policy for the Review of Business Operations
- Methodological manual: individual evaluation of non-performing loans

Leasing

- Leasing strike zone EF, HFS, Auto & Trucks
- Transportation preliminary work
- Capital Goods preliminary work
- Risk classification of non-performing exposures and application of forbearance

NPL Area

- Policy for managing acquisitions of distressed loan portfolios
- Non-performing loan classification and management criteria
- Procedure for Assigning NPLs to debt collection units
- Organisational Procedure for Collecting debts through non-judicial actions
- Organisational Procedure for Collecting debts through judicial actions
- Organisational Procedure for Managing payments associated with distressed debt collection operations



The policies governing Leasing operations in terms of eligible sectors and types of assets (so-called “strike zones”) exclude by default a number of sectors / areas considered to be at greater risk in terms of ethics, the security of end users, environmental impact, and solvency. In addition, the Bank evaluates the future user of the asset based on reliability and credibility criteria through a scoring system and the preliminary work carried out by specialised teams. Specifically, these assess the soundness of the counterparty's credit position and whether the requested asset is consistent with its operations.

Credit monitoring as well as the monitoring of individual exposures referring to Trade Receivables, Lending, and Leasing are conducted on a regular basis using effective procedures that can provide timely warnings of potential issues and ensure the adequacy of impairment losses and write-offs. Risk Management ensures the credit monitoring of individual exposures, specifically non-performing ones, is properly carried out and evaluates the consistency of the classifications, the provisions set aside, and the adequacy of the debt collection process at the central and peripheral level.

Please see Part E of the Notes to the 2017 Consolidated Financial Statements for a description of risk management, monitoring and control policies and techniques, as well as the main segment KPIs included in the Directors’ Report.

In the NPL Area, which specialises in acquiring and managing, as well as partially disposing of, non-performing loans, the focus is on assessing whether the receivables can be recovered and preparing settlement plans compatible with the specific debt situation by adopting several mechanisms throughout the various loan acquisition stages:

- first, the Area verifies whether the loans being acquired can be recovered, so as to exclude non-existing or time-barred receivables and prevent the risk of non-payment as well as the reputational risk that trying to collect bad loans would entail. After establishing a first contact with the account debtors, the NPL Area assesses the legitimacy of any complaints and, if these are based on reasonable grounds, writes off the position or seeks indemnification from the seller, if allowed by the contract;

- it assesses the probability the customer will actually settle its debts;
- it prepares settlement plans suited to the customer's finances and tailored to each individual case.

Preventing the risk of money laundering is key for protecting the Bank's financial strength and, more generally, its reputation, and reflects its constant effort to actively co-operate with Supervisory Authorities. The Group refuses to do business, either directly or indirectly, with individuals or companies that are known or suspected members of organisations engaging in criminal or illicit activities. Therefore:

- as for the Leasing segment, it checks the sector the potential customer operates in (based on ATECO codes) to see whether the exclusions of the “strike zones” apply. In addition, it examines negative press reports using an automated system integrated with the auto-decision making procedure: if there are any matches, the position is put on hold and marked for a manual assessment, involving also the Anti-Money Laundering function. Following these checks, the position is assigned a risk profile that serves as the basis for activating an approval process at different hierarchical levels;
- as for the Trade Receivables and Lending segments, the above checks are integrated with master data management procedures. Also in this case, based on the matches found, the counterparty is assigned a specific level of money laundering risk, and the decision of whether to open/maintain the relationship is left to the appropriate hierarchical level;
- as for the NPL area, it conducts a review at the time the receivables portfolio is acquired as well as subsequent checks on individual counterparties when defining settlement plans.

If a relationship with a customer classified as high risk is activated, the position is subject to stricter and more frequent reviews in terms of updates and monitoring operations, and any decision is escalated to higher levels.

The Anti-Money Laundering function helps defining the contents of mandatory anti-money laundering training, especially for those employees that are in direct contact with customers. Besides being required by law, training is key for raising awareness and promoting a culture among employees of preventing the risk of unwittingly involving the Bank in this kind of incidents.

Transparency towards the market

Policies and other reference documentation

- Code of Ethics
- Investor Relations Policy
- Corporate Information Handling Policy
- Organisational Procedure for the Transparency of Banking Operations and Services

Banca IFIS transparently discloses information about the Parent and the other companies while keeping sensitive data and information, chief among them those that can affect its share price, confidential.

The Bank maintains relationships with the media guided by the principles of transparency, accuracy, completeness and timeliness, and it is prohibited to disseminate false information or hide data or information that could mislead recipients. All employees, except those authorised for this purpose, are not to give statements, interviews or announcements concerning the Group's business or organisation to the press or other media.

The Parent's Communication and Investor Relations function maintains relationships with financial analysts and ratings agencies guided by the principles of fairness, transparency, collaboration, and absolute respect for the independence of their respective roles. Maintaining a relationship and dialogue with the financial market is strategically key for the Group: the Bank ensures the timeliness and transparency of market disclosures and acts proactively towards its stakeholders by presenting and analysing short-term information, illustrating the Group's strategic guidelines, and developing trust with market participants and the business community. The Compliance function helps with topics related to market abuse regulations by supporting their analysis and implementation.

Investor Relations activities include preparing, managing and coordinating all actions necessary to achieve the Group's goals in the context of the relationships with parties inside and outside the company. Every day, the function maintains an effective communication with the financial market, ensuring a regular, organic and complete flow of information.

This day-to-day relationship allows the Investor Relations function to provide an accurate and consistent overview of the Banca IFIS Group, facilitating the decision-making process of market participants. Maintaining a proactive communication approach is key to facilitate the understanding of the market scenario in which the Bank operates as well as of the decisions and actions taken during the year.

The most significant ways in which the function interacts with the financial community are: press releases, quarterly earnings conference calls, investor meetings, communications on the Bank's official website and social media pages, and the publication of the Group's financial statements in an interactive format to facilitate its understanding.

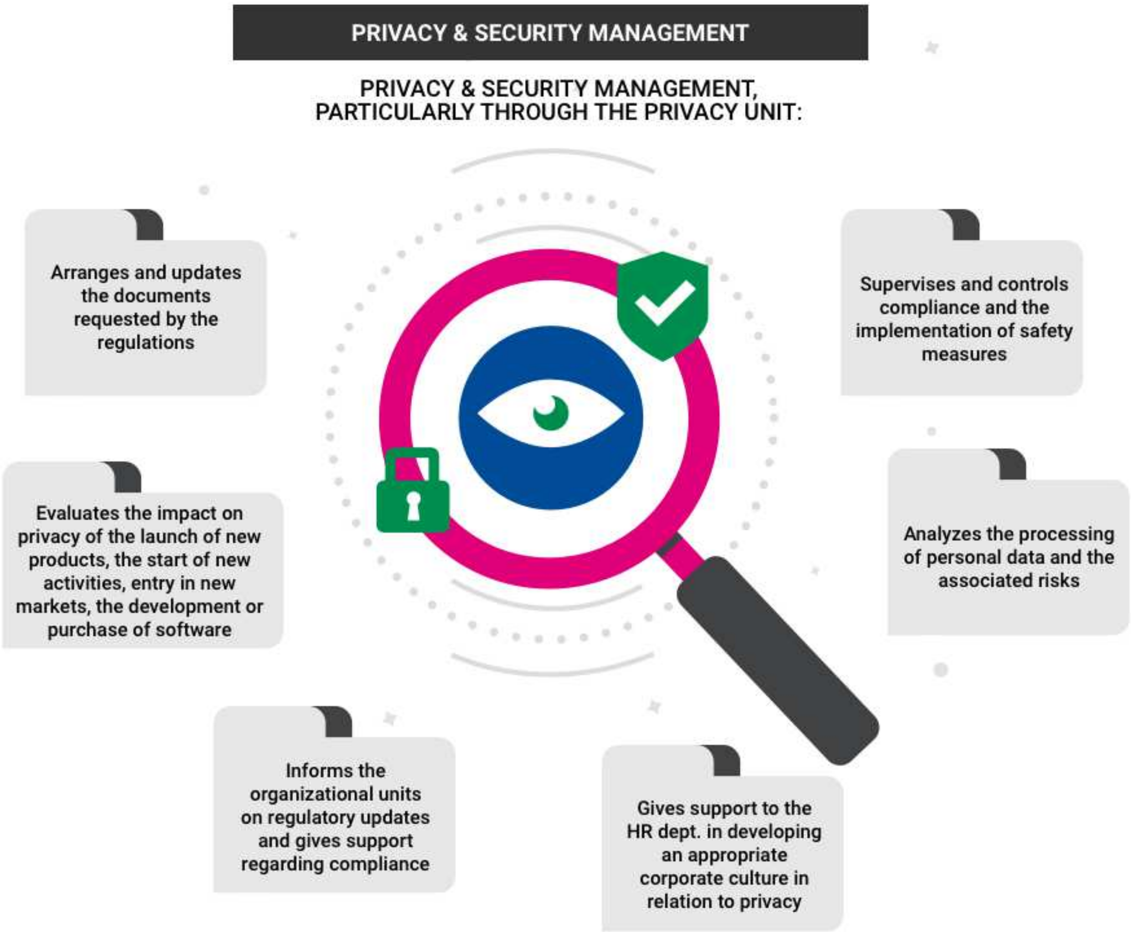
Personal data protection

The Group considers the protection of personal data a mandatory principle that is key for building trust with customers and protecting the Group's reputation.

The main internal document governing personal data protection is represented by the Privacy Guidelines approved by the Board of Directors. Said document and the security regulations and procedures make up the set of guidelines and rules defining how data is protected within the organisation.

Policies and other reference documentation

- Privacy guidelines
- Group information security management policy
- Operational Procedure for managing information security and privacy incidents
- Operational Procedure for managing the provisions issued by the Italian Data Protection Authority
- Organisational Procedure for managing logs
- Organisational Procedure for managing logical access



In 2017, the Banca IFIS Group launched a project involving Banca IFIS and its subsidiaries aimed at implementing the actions required to achieve compliance with the new European General Data Protection Regulation (GDPR), which is to become effective on 25 May 2018.

In 2017, the Group received 144 complaints concerning privacy breaches (while no complaints were received in 2016), almost all associated with an operational mistake made in preparing a market research survey. In any case, no sensitive data was exposed. During the year, the Group identified 7 thefts (specifically of paper forms) and leaks of data. None of the incidents, including those that triggered complaints, concerned failures or errors of internal systems or applications.

Information Security

By committing to prevent and manage information security incidents in a timely manner, the Bank seeks to protect its proprietary information, which includes, among other things, the data of customers, employees, suppliers, and any other party with which Banca IFIS does business. Special emphasis is placed on the entire Information Security governance process, constantly ensuring an adequate level of protection of both proprietary information and the services offered by the Bank—also in accordance with the Group IT risk management policy.

Policies and other reference documentation

- Group Information Security management policy
- Group IT risk management policy
- Group ICT strategic planning policy
- Group software and IT service procurement policy
- Group internet payment system policy
- ICT performance monitoring policy

The 2017-2019 Strategic Plan involves a significant economic and design effort aimed at strengthening the infrastructure so as to ensure information remains secure, considering also the impact that complying with new privacy (GDPR) and payment service (PSD2) regulations will have on cyber security systems.

The Privacy & Security Management function constantly monitors information security and helps assessing IT risk through the Information Security Organisational Unit. In addition, as far as business continuity is concerned, it carries out an impact analysis on business processes and prepares the relevant plan through the Business Continuity Organisational Unit. The other functions involved are the Compliance function, which must give its opinion on the regulatory implications of specific projects or topics (e.g. the security of IT payment systems); the Risk Management function, which helps define how to manage IT risk; and the ICT function, which implements the infrastructure and tools required to implement the adopted guidelines.

The information security incident management process is aimed at ensuring that any unusual events with potential repercussions on the Group's level of physical and logical security and the availability of IT Services are promptly recognised as information security incidents, and therefore addressed appropriately by the competent structures.

The warnings and events that can give rise to security incidents can originate from internal channels (other organisational units) or external ones (customers, suppliers, and institutional channels). The Information Security organisational unit manages such warnings in partnership with any other concerned and interested parties, based on the extent and type of the event.

IFIS People

Employment and integration

Policies and other reference documentation

- Code of Ethics
- Group employee management policy

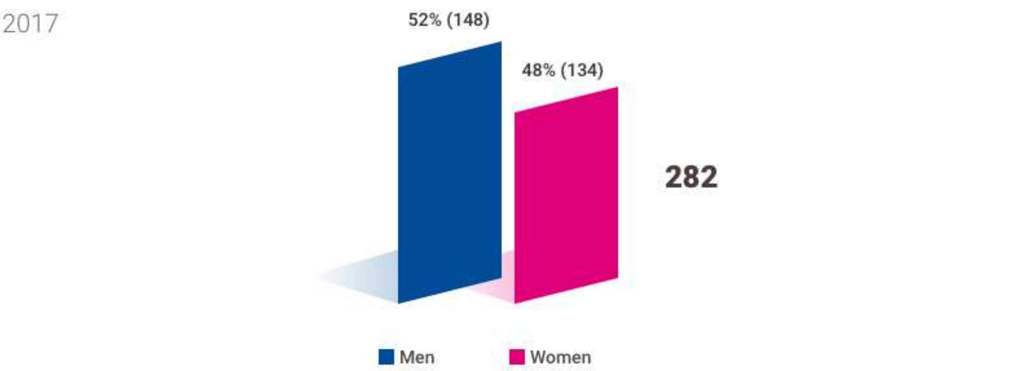
Creating new job opportunities is a priority for the Banca IFIS Group: its vision, expressed also in the 2017-2019 Strategic Plan, stresses the Bank's active role in contributing to the economy in which it operates, promoting employment and the creation of social value.

The Bank is aided in this role by the continued growth registered by its historic businesses (servicing non-performing loans and financing SMEs), which in 2017 required strengthening both business and governance structures. During the year, the Banca IFIS Group hired 282 employees, of which more than half were less than 30 years old—evidence of its focus on facilitating the involvement and inclusion of young people into the labour market as well as its interest in introducing new talents into the organisation.

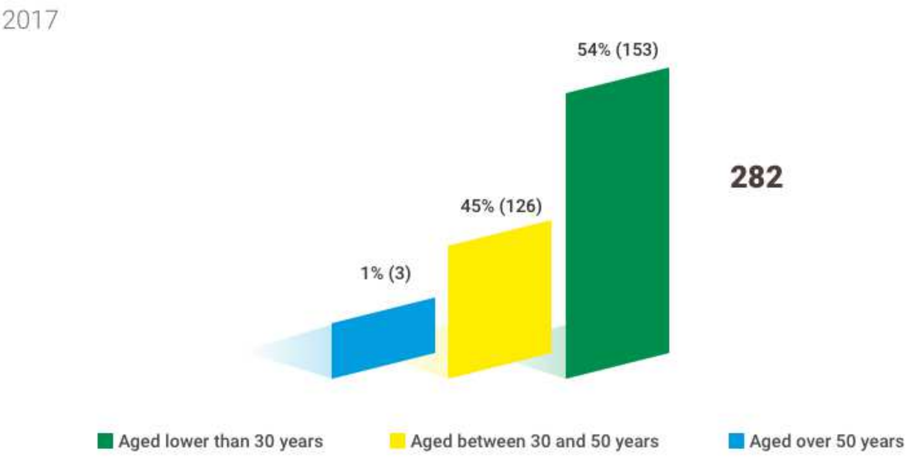
The commitment to maintaining and increasing the number of employees has remained constant at the behest of management—including during the merger of the GE Capital Interbanca Group. Those dedicated to work for which there was a diminished requirement following the restructuring were reallocated within the same functions or to functions where they could put their specific skills and expertise to good use through appropriate professional training and retraining courses.

To facilitate this process, the Group created the “Experience Portal”, an online opt-in database in which the employees of the former GE Capital Interbanca Group can describe their professional curriculum, skills, and ambitions. This information is taken into due consideration when managing reallocations to turn this change into an opportunity for professional development and growth. At the end of 2017, 312 Group employees had joined the portal.

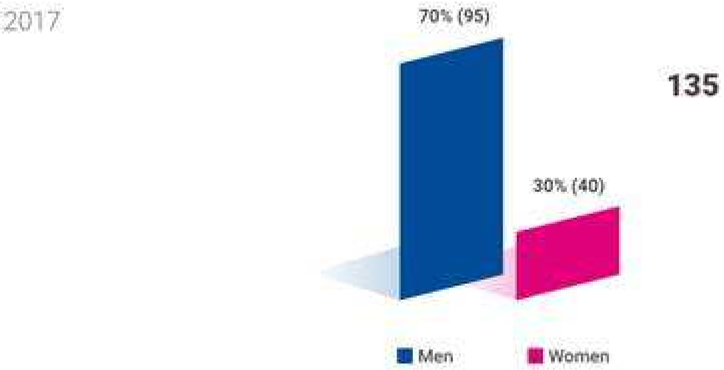
NEW EMPLOYEES HIRED BY GENDER



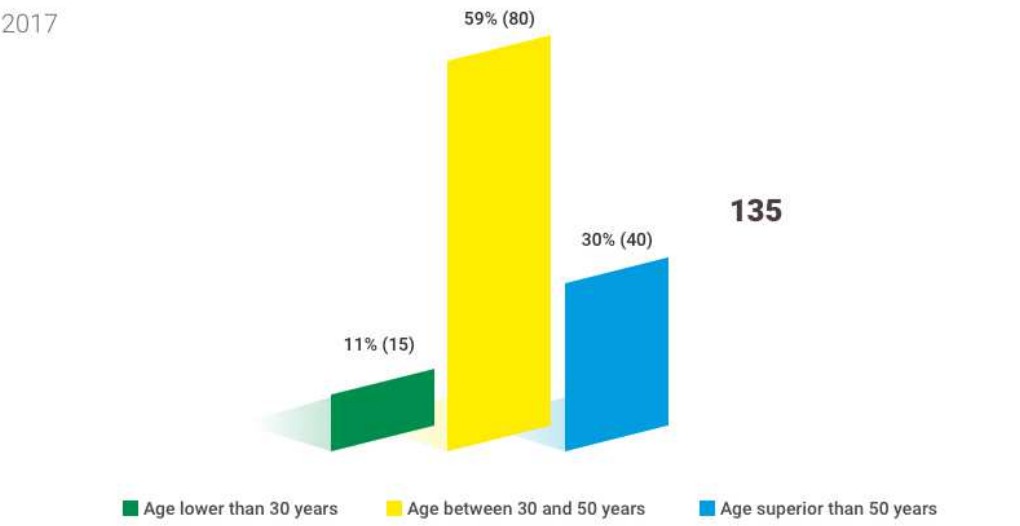
NEW EMPLOYEES HIRED BY AGE RANGE



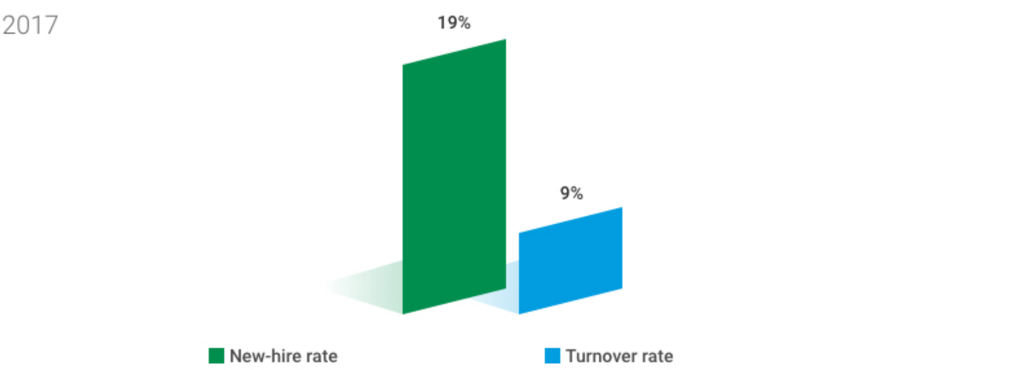
FORMER EMPLOYEES BY GENDER



FORMER EMPLOYEES BY AGE RANGE



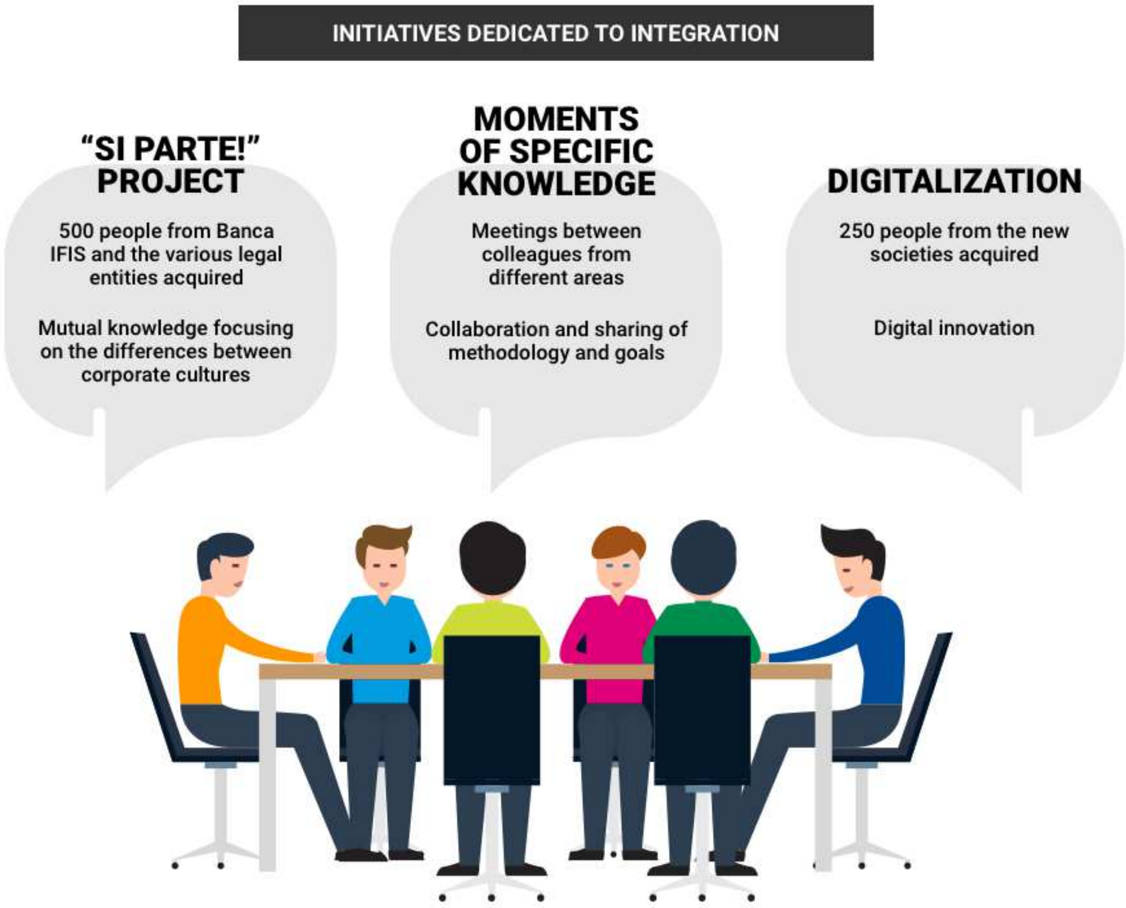
NEW-HIRE AND TURNOVER RATE



In addition, because of the organisational changes that concerned the Group, in 2017 the Human Resources and Communication functions worked on a project to integrate the employees of Banca IFIS and those of the legal entities acquired during 2016 to standardise work methods, processes and tools as well as promote the objectives and values of the new banking Group.

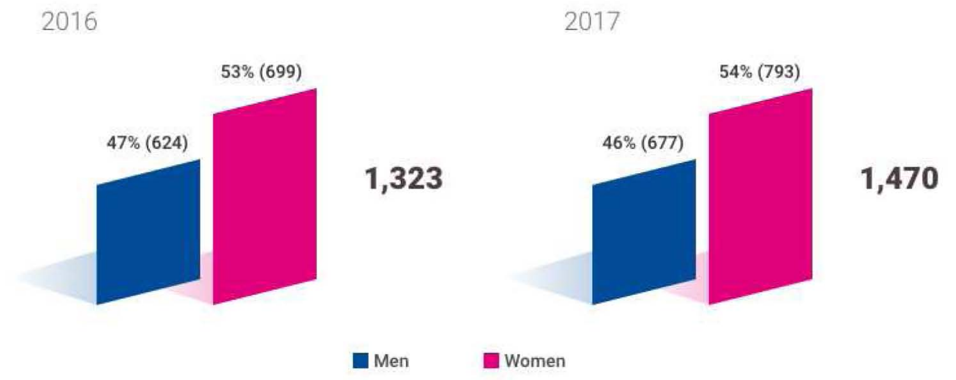
The initiatives to help employees get to know each other included:

- *"Si parte!" Project*: an integration workshop for staff at the Mestre, Milan and Mondovi offices, which involved more than 500 participants from Banca IFIS and the various legal entities acquired in 2016 over 11 one-day editions, with the goal of increasing mutual understanding by focusing on different corporate cultures;
- *Moments of specific training* within the individual functions to unite the staff of Banca IFIS with new colleagues arriving from the acquisitions, encouraging cooperation and the sharing of methods and objectives;
- The *"Digitalization Program"* which involved 250 participants from the newly acquired companies, in order to highlight the importance of digital innovation at the Bank.

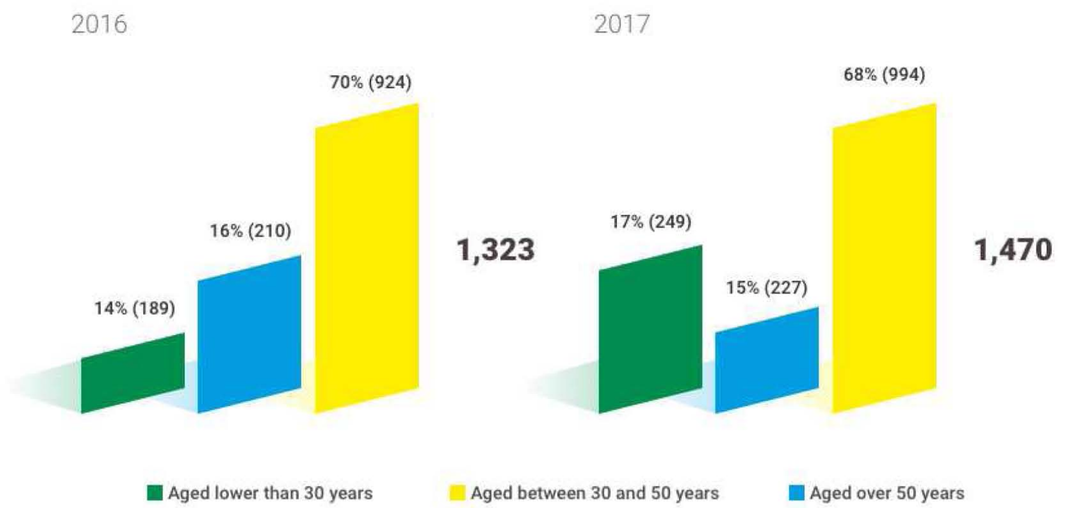


At the end of 2017, the Banca IFIS Group's had 1.470 employees, of which 93% on permanent contracts. More than half were women, and the breakdown by age group testifies to the Group's youthful and dynamic spirit: 78% were between 30 and 50 years old, and 17% (+3% from 2016) were under 30 years old.

EMPLOYEES BY GENDER

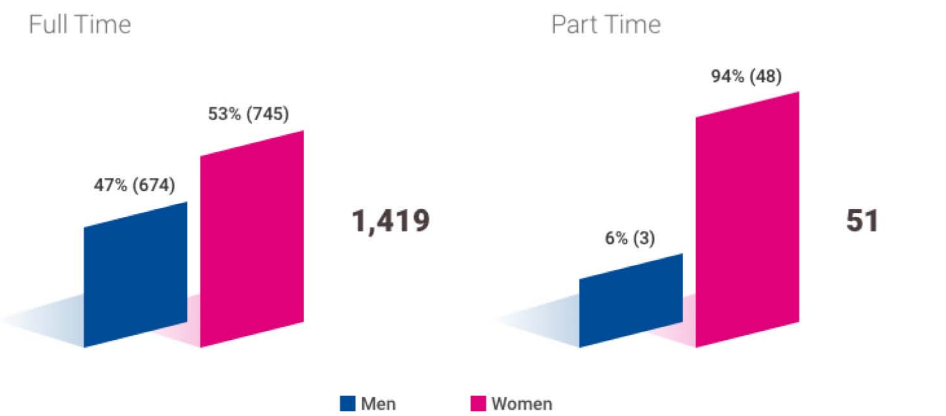


EMPLOYEES BY AGE RANGE

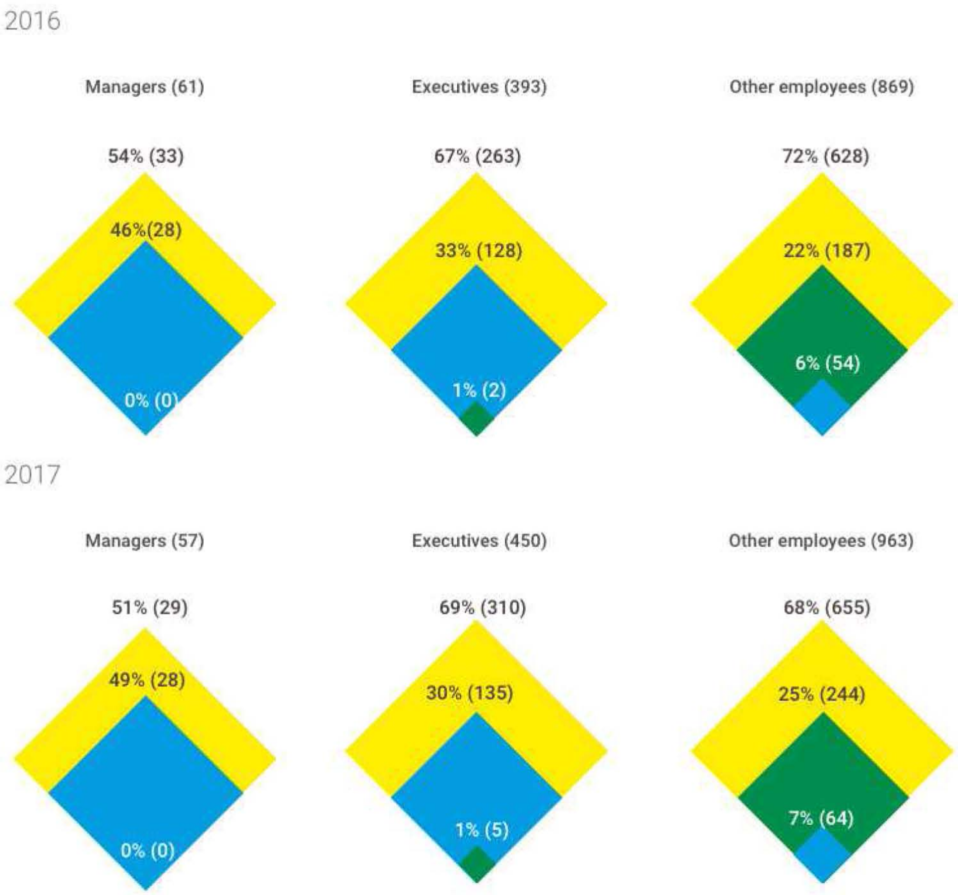


EMPLOYEES BY TYPE OF CONTRACT AND GENDER

2017 FULL-TIME AND PART-TIME EMPLOYEES



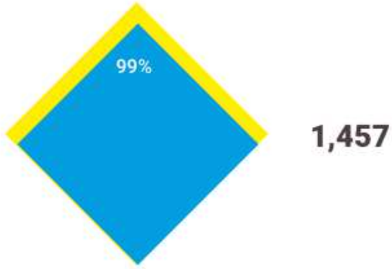
EMPLOYEES BY GRADE AND AGE RANGE



Aged lower than 30 years | Aged between 30 and 50 years | Aged over 50 years

EMPLOYEES BY GRADE AND GENDER

EMPLOYEES PROTECTED BY COLLECTIVE BARGAINING AGREEMENTS [15] 2017



[15] The figure represents all employees based in Italy (1.451) and 6 employees based in Romania, who are covered by local collective bargaining agreements. The remaining 1% are employees based in Poland and subject to local laws, which do not envisage collective bargaining

Training

Reference policies

- Code of Ethics
- Group Employee Management Policy

Training is of paramount importance to the Banca IFIS Group, as it is key for constantly upgrading employee skills—which is crucial for growing the business and retaining talent.

An adequate training positively impacts the performance and effectiveness of employees as well as external agents, the dissemination of the corporate culture, and engagement. This has positive implications also for customers, as complying with professional standards, promoting a culture of preventing risks, and empowering the members of the network influence the quality of the service rendered. Mandatory training required by law also plays a crucial role, as it prevents employees and the Bank from committing, including unwittingly, acts that could constitute criminal offences.

Banca IFIS commits to providing training to all employees and promoting participation in refresher courses and training programmes in order to help each individual fully realise his or her skills and expectations, and thus contribute towards the Group's goals.

Every year, based on the result of the performance appraisal process and the qualitative gaps identified by the Human Resources Strategic Plan, Banca IFIS designs, prepares and implements a Training Plan for all employees. Said Plan is proposed by the Human Resources Development function and approved by the General Manager.

The Group supports its employees' professional growth through:

- *basic training*, aimed at providing general knowledge on company operations, products, services and procedures;
- *mobility* in different positions, aimed at increasing specialised, commercial and managerial skills;
- modulation of *specific professional development projects* by type of role/profession or by employee clusters.

DEVELOPMENT OF SKILLS

THE THREE MACROAREAS OF TRAINING

MANAGERIAL, BEHAVIOURAL AND TECHNICAL TRAINING

deriving from the employee evaluation process

COMPULSORY TRAINING

in relation to administrative responsibility ex d. lgs. 231/2001, transparency of information and banking services, anti-money laundering and the fight against the financing of terrorism, health and safety of employees, computer and network security, privacy

TRAINING COURSES FOR CONTINGENT OR RISING NEEDS

such as organizational and regulatory changes or new business priorities that request the detailed analysis/study of certain topics to guarantee the acquisition of specific knowledge in a short time

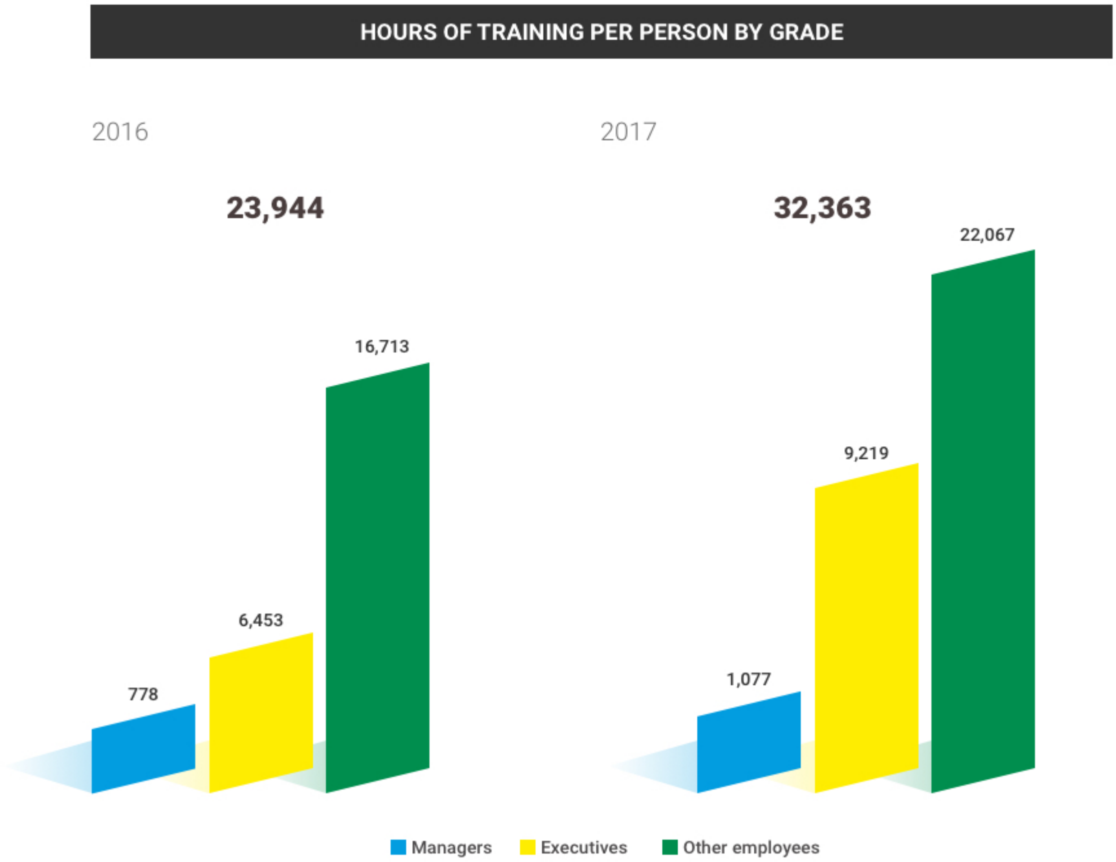
Training programs cover three main areas:

- *Managerial, behavioural and technical training*, based on the staff evaluation process;
- *Mandatory training* relating to administrative liability pursuant to Legislative Decree 231/2001, the transparency of transactions and banking services, anti-money laundering and combating the financing of terrorism, occupational health and safety, information security and privacy;
- *Training courses for contingent or emerging needs,* such as organizational changes, regulatory changes or new business priorities, which may require specific knowledge in certain areas to ensure the acquisition of specific skills in a short time.

Based on the topic to explore and the target level of knowledge, the Human Resources Development function identifies the most effective and efficient training method among such options as management and behavioural training workshops (in-house and external), specialised technical training (in-house and external), on-line courses, external seminars / conferences, training on the job, coaching, and one-to-one training. The Human Resources Development function assesses the level of satisfaction with, and the effectiveness of, training courses by conducting random surveys.

There is a specific "Onboarding Process" for new hires that consists in a series of individual and/or group meetings starting from the first 30 days at the company until the end of the first year of service. These meetings are aimed at integrating new hires into the Bank's organisation and their respective structures. 204 new hires participated in the process during 2017.

The outcome of the review process carried out in 2016 and the recent organisational changes required the Group to make a significant effort to provide mandatory, technical and procedural training as well as align the values and conducts of Banca IFIS and the acquired companies during 2017, causing an increase in the number of training hours across all employee categories.



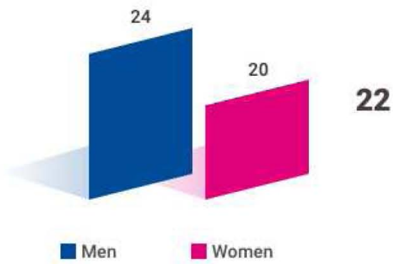
TRAINING COSTS (EURO)

2017

1,105,703

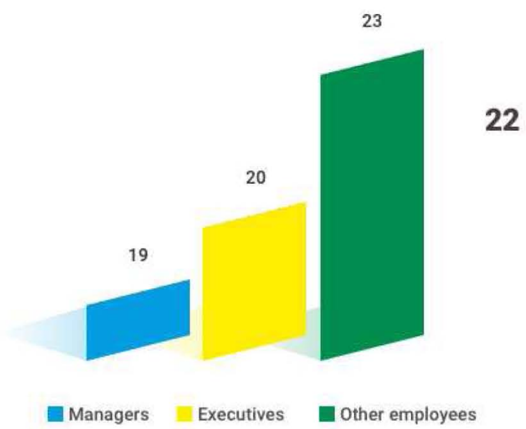
HOURS OF TRAINING (AVERAGE) PER PERSON BY GENDER

2017



HOURS OF TRAINING BY GRADE

2017



Performance evaluation

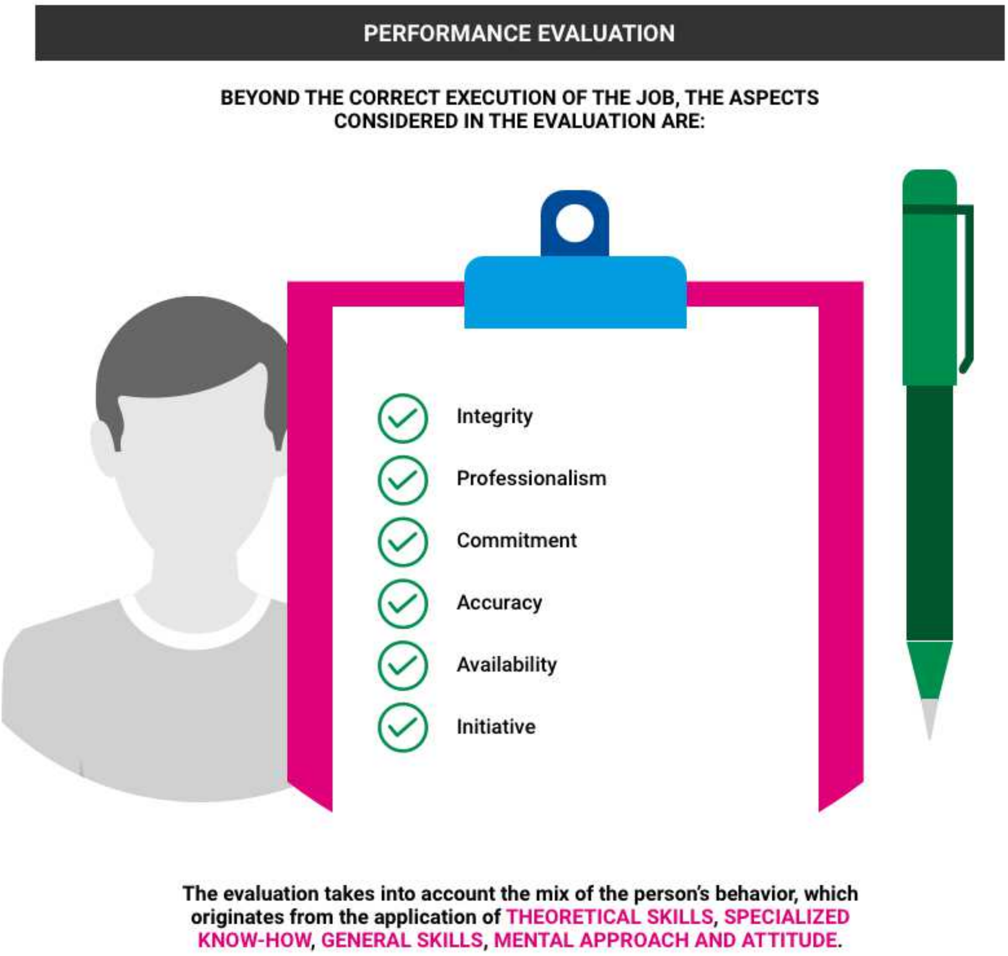
Policies and other reference documentation

- Code of Ethics
- Group Employee Management Policy

People are key to accomplishing the Banca IFIS Group's goals. Therefore, human resources management seeks to promote the competencies and skills of each individual by providing opportunities to fulfil their potential.

To this end, clear and transparent performance evaluation systems directly impact the extent to which all the Group's employees are integrated and can make the most of their talents within the new corporate organisation as well as the level of recognition of specific personal skills perceived by each individual, contributing to a sense of belonging and engagement.

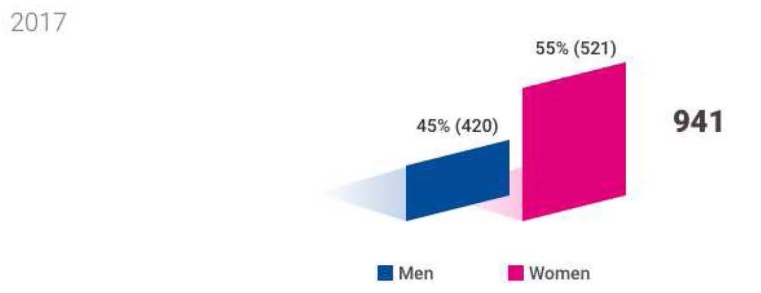
Banca IFIS envisages a careful process of periodic staff evaluation, governed by the Group Policy for Employee Management. In addition to the proper execution of work, this evaluation takes into consideration aspects such as integrity, professionalism, commitment, correctness, availability and initiative. Evaluation thus looks at the overall conduct of individuals, based on the possession and application of theoretical knowledge, specialized know-how, skills, attitudes and mental orientation.



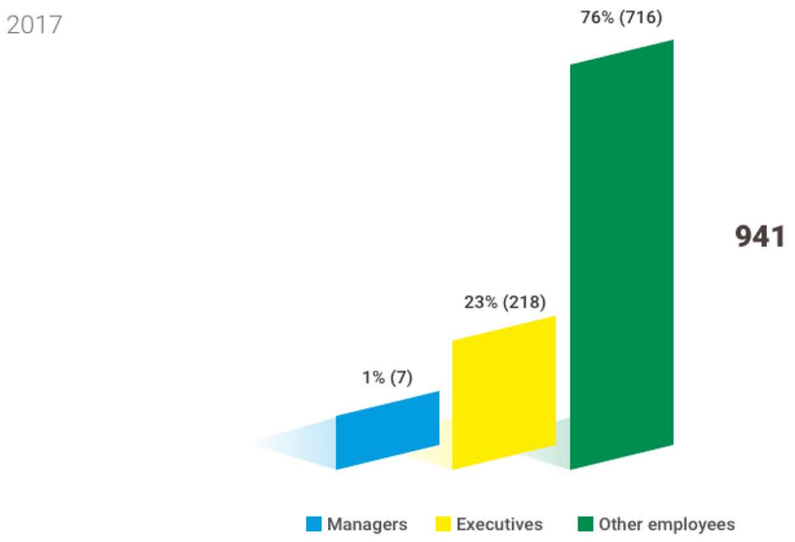
The evaluation process, closely linked to the bonus pay system, is managed by the Human Resources Development function and is implemented in compliance with the principles of fair evaluation, simplicity and immediacy of assessment. Every year, the manager of each organizational unit gives a formal performance review of the employees assigned to the same.

The effectiveness of the management approach is ascertained through internal analyses carried out by the Human Resources Office, namely: verification of compliance with the distribution of expected assessments and the fulfilment of contractual obligations regarding the evaluation of employees by managers.

EMPLOYEES WHO RECEIVED A PERFORMANCE EVALUATION WITHIN THE YEAR, BY GENDER



EMPLOYEES WHO RECEIVED A PERFORMANCE EVALUATION WITHIN THE YEAR, BY GRADE



Remuneration

Adequately remunerating skills is one of the main levers for attracting and retaining top talent—which is key for growing the business.

Banca IFIS's remuneration and incentive policies are defined in accordance with the Group's culture and values, long-term strategies, and prudent risk management policies, consistently with the provisions concerning the prudential control process.

Policies and other reference documentation

- Code of Ethics
- Group Employee Management Policy
- Remuneration report (Remuneration and incentive policies)

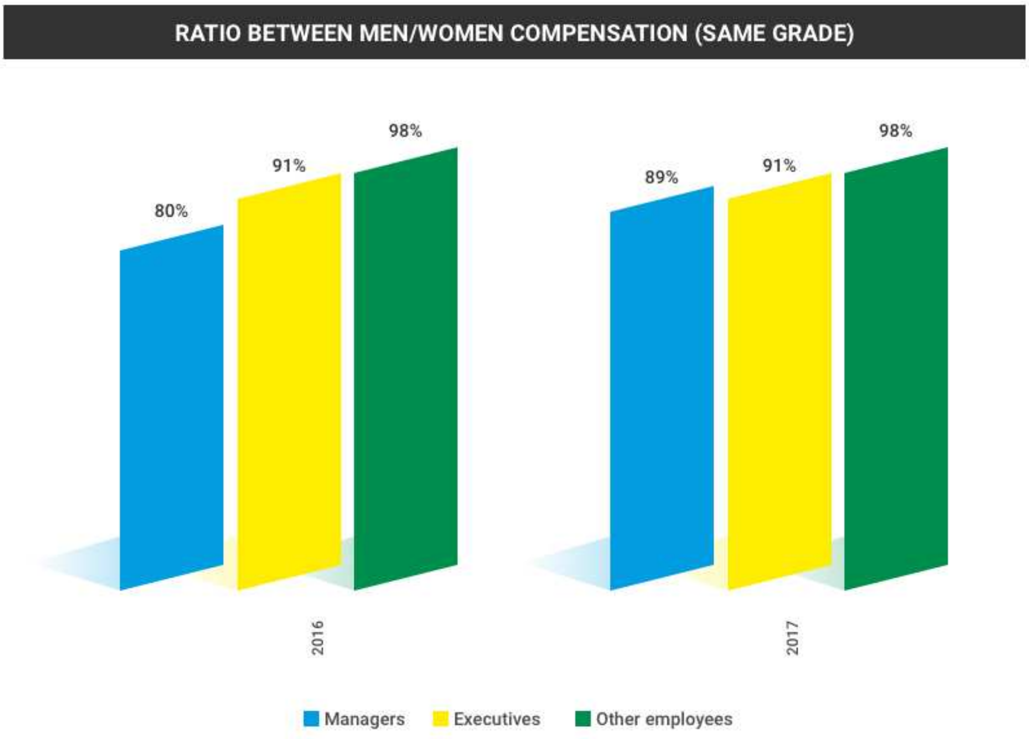
The Banca IFIS Group's remuneration and incentive scheme aims to balance competitiveness and the achievement of objectives with the sound governance of the Group, promoting a healthy and effective risk management, maintaining transparent and fair customer relationships, and seeking to align the interests of the different stakeholders as much as possible.

The Banca IFIS Group has an annual bonus scheme in place that follows the performance review as well as incentive schemes focused mainly on the sales force with bonuses contingent on achieving pre-set goals and awarded on a regular basis. Pursuant to the provisions of the Remuneration Report, which is approved annually by the Board of Directors and then the Shareholders' Meeting, the Group has a specific incentive scheme in place for employees considered to be Material Risk Takers.

In addition, the corporate bodies and employees have access to a number of benefits that vary in accordance with their role and/or service, such as insurance policies, lunch vouchers, company vehicles, and employer contributions to supplementary pensions plans.

The remuneration policy and the annual Remuneration Report are subject to review by the Internal Audit and Compliance functions (the review concerns the consistency of the incentive scheme with internal policies and regulations, and the comprehensiveness of the disclosures in the Report relative to regulatory requirements, respectively). The findings and any potential anomalies are reported to the Remuneration Committee, the Board of Directors, and the competent functions, allowing them to take corrective actions as needed, as well as, in condensed form, to the Shareholders' Meeting convened for the approval of the Financial Statements.

Concerning the ratio of the basic salary of women to men, there is substantial equality within the Clerical Staff category and a limited difference for Middle and Senior Managers. The situation has improved compared to 2016 because of the turnover among the Group's executives and the appointment of new managers with relatively low seniority.



Non-discrimination

Policies and other reference documentation

- Code of Ethics

The Group firmly condemns any discrimination against employees or applicants based on gender, age, religious or political beliefs and trade union affiliation, as well any form of nepotism and preferential treatment.

As the Code of Ethics—the Group's main reference for standards of conduct and ethics—clearly states, all Group employees shall maintain the highest standard of conduct, respecting the dignity and moral personality of everyone, and sexual harassment or other sexual misconduct is absolutely prohibited. These rules apply also to Collaborators.

It is possible to report any conduct contrary to these principles, with the guarantee that the personal data of the complainant and the alleged offender will remain confidential, through the Whistleblowing mechanism, which is available to employees as well as collaborators and independent contractors working with the Group on a regular basis. No incidents of discrimination were reported in 2017.

Occupational health and safety

Policies and other reference documentation

- Code of Ethics
- Integrated Safety and Environment Manual

First and foremost, all the Group's operations must meet adequate safety standards at all times. Through the Safety Policy included in the Integrated Safety and Environment Manual, Banca IFIS sets out and communicates the fundamental principles and criteria that guide decisions on occupational health and safety as far as the offences described in Italian Legislative Decree 231/2001 are concerned.

In accordance with applicable laws, the Group's companies guarantee an adequate work environment from the perspective of health and safety. The Group's employees must thoroughly comply with health and safety provisions as well as attend mandatory training programmes. In 2017, the Group provided 2.820 hours of mandatory training on health and safety practices and procedures.

FUNCTIONS AND PERSONS INVOLVED IN THE SAFEGUARDING OF HEALTH AND SAFETY

Responsibility for occupational health and safety is entrusted to the Prevention and Protection Service Manager (RSPP), the Prevention and Protection Service Officer (ASPP) and the Human Resources and General Services functions, delegated by the employer based on their respective areas of competence. In particular, the General Services function organizes and oversees activities and manages the structures and equipment of offices and branches with regard to health and safety aspects. Ultimate responsibility for the identification and management of occupational health and safety measures lies with the General Manager.

The company and employees discuss occupational health and safety at regular meetings as well as other consultative meetings held by the Group's companies throughout the year. The Employee Safety Representatives, whose number is proportionate to the size of the company pursuant to collective bargaining agreements, represent all the Group's employees.

To evaluate the effectiveness of the adopted management approach, the General Services function conducts environmental monitoring and surveys to assess the internal well-being of work environments, performing air quality and electromagnetic field analyses, among others, at the Bank's main locations.

As part of the Group's continuous improvement effort, in 2017 a number of offices underwent noise level and microclimate monitoring, and this led to adopting several improvements.

The Prevention and Protection Service conducts safety audits at newly opened locations or offices, in the event of significant changes to the layout of work environments, at the request of Employee Safety Representatives, or during annual evacuation drills.

IFIS Customers

Support to enterprises and customers' financial inclusion

> **Policies and other reference documentation**
>
> ***Trade receivables and Lending***
> - Ordinary credit management policies (specific for BU Banca IFIS Impresa Italia, BU Banca IFIS Impresa International, BU Farmacie, BU Pharma)
>
> ***NPL Area***
> - Policy for managing acquisitions of distressed loan portfolios

As the largest independent player in Italy's specialty finance market, the Banca IFIS Group sees supporting entrepreneurship and the financial inclusion of its customers as a key goal to be pursued specifically through the Banca IFIS Impresa and Credifamiglia brands.

Banca IFIS Impresa was born and operates specifically to help entrepreneurs by offering financial services and instruments that allow business customers to grow healthily, supporting them in day-to-day operations through local personnel. Banca IFIS Impresa targets specifically SMEs. Access to the Bank's services is guaranteed by its network of branches, which are located in Italy's main economic hubs and are fully accessible to customers in accordance with Italian laws, as well as cutting-edge online and digital services allowing the Bank to always remain in contact with its customers regardless of physical constraints.

Besides offering products and services, Banca IFIS focuses on disseminating information that allows entrepreneurs to know more about the financial instruments that can help their business. Specifically, the most significant initiatives launched in 2017 included organising a roadshow on accounts receivable financing for companies that do business with the Italian Public Administration and creating “Mondo Leasing”, Italy's first blog dedicated to leasing: this features opinions and contributions from leading industry professionals and addresses the key issues associated with this topic.

In addition, the Group works on several local initiatives to be at the service of businesses, helping to promote a management culture and raise awareness on best practices as well as new technologies and tools supporting growth—chief among them digitisation.

Botteghe Digitali (Digital Workshops)	Botteghe Digitali, born in late 2015 from a partnership with Venice's Cà Foscari University and Marketing Arena, is a mentoring project for craft businesses aimed at helping them establish themselves on the market and boost their competitiveness while preserving the characteristics of the made-in-Italy brand that makes them special. Botteghe Digitali started as a storytelling project (through a YouTube *web series*) focused on sharing best practices and then turned into an Industry 4.0 manufacturing experiment, allowing select craftspeople to receive support from the Bank in terms of business plans, product analysis and re-design, workspace changes, and the rethinking of their digital and social media presence. As part of the second edition of the project, 11 companies selected from among over 300 candidates worked with coaches and specialists made available to the Bank throughout the year.
Innovation and Craft Society	The project started in September 2017 as a "club for high-end manufacturing companies": it is a research and innovation hub, an observatory for the trends concerning the digitisation of manufacturing businesses, and a place where companies, researchers, institutions, and representatives of the financial industry can meet to exchange experiences and information. In 2017, the club organised a workshop on Industry 4.0 design and manufacturing as well as two events—in partnership with Meet the Media Guru, an incubator dedicated to innovation and digital transformation—that featured international personalities and players of the digital world and focused on the evolution of creativity and production in the context of Industry 4.0 manufacturing.
Tour PMI (SME Tour)	Through Tour PMI, Banca IFIS Impresa highlights the peculiarities, experiences and successes of its business customers through video stories published on the Bank's social media channels.
FinTechnology Forum	Banca IFIS, in partnership with TEHA Ambrosetti, has created the FinTechnology Forum—a series of meetings that started in 2017 and will end in April 2018 where financial players and institutions discuss the impact of fintech on the market and the risks and opportunities associated with it.

The Banca IFIS Group sees the financial inclusion of individuals as a strategic goal, since it seeks to bring the largest possible number of insolvent customers, who therefore cannot currently access credit, back to the market. Through the Credifamiglia brand—part of the NPL Area—the Bank prepares sustainable settlement plans tailored to the specific situation of each customer, with the option of adjusting payment plans in cases of objective distress.

Also in the case of the Credifamiglia brand, Banca IFIS focuses on disseminating information to raise awareness about these specific topics, for instance by publishing video interviews with customers on its web and social channels as well as through a glossary with specific recommendations to raise awareness and share information on borrowing and other topics related to Credifamiglia.

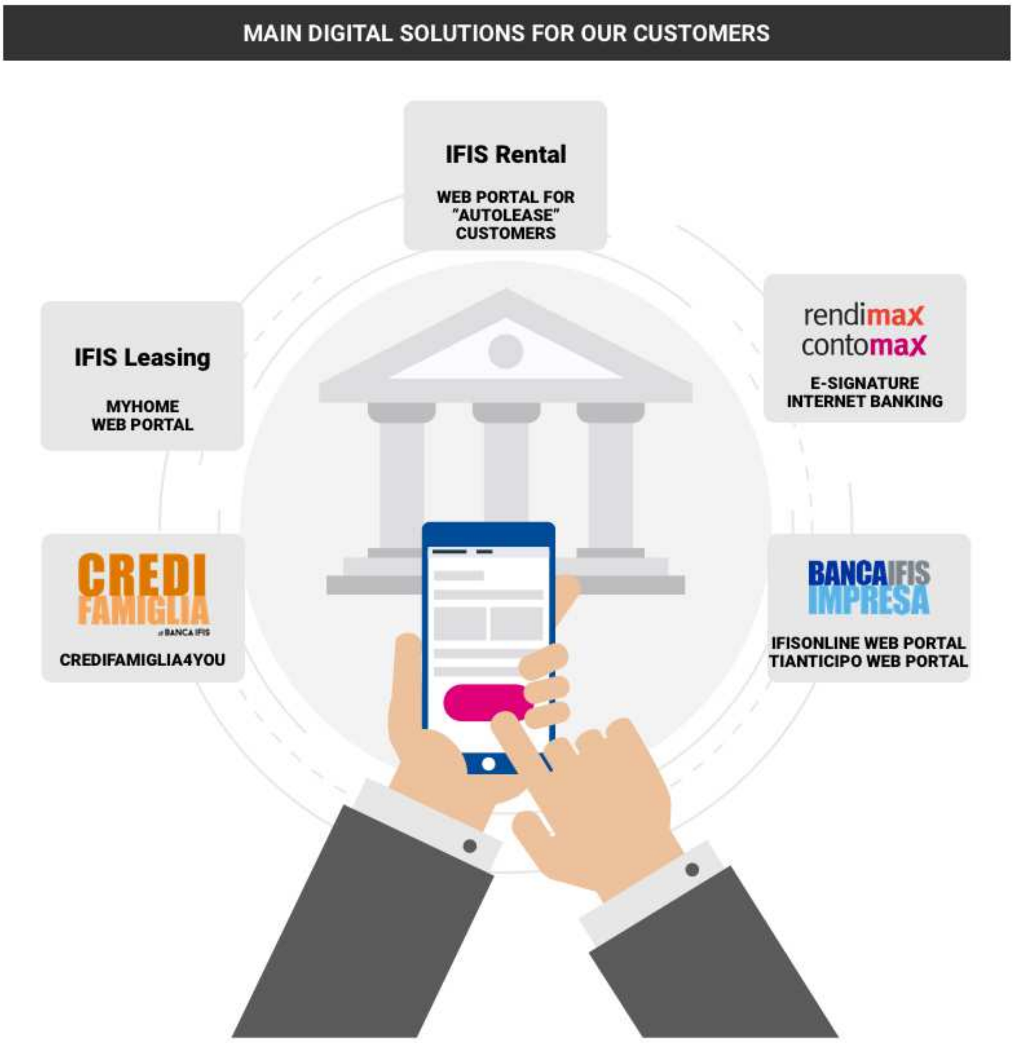
Digital innovation

Policies and other reference documentation

- Group ICT strategic planning policy

The Bank's ability to offer innovative digital solutions to its customers impacts the quality of the bank-customer relationship, the accessibility of its services, and how efficiently these are used. Similarly, the accelerating digitisation of internal processes makes the sales process more effective and efficient, with significant benefits for the Bank as well as its employees and sales network agents.

Aware of the increasing importance of digital solutions for growing the business, the Banca IFIS Group defines an ICT infrastructure roadmap that is consistent with its strategic objectives, pursuant to the Group ICT strategic planning Policy. The investments outlined in the 2017-2019 Strategic Plan aim to expand the offering of the Bank's products to entirely digital sales channels, improve the user experience for all types of users, and streamline and digitise internal processes.



The Bank already offers a series of digital tools and solutions that improve the customer experience:

- all retail customers of Banca IFIS (rendimax and contomax) can use, in addition to the Internet Banking service, a digital signature to carry out various transactions, also to open accounts and request payment cards;
- Banca IFIS Impresa offers the IFIS Online portal for factoring customers and the "Ti Anticipo" (www.tianticipo.it) platform for companies working with the public administration, which allows them to easily request advances and constantly monitor the status of practices through the registration of certified invoices;
- the "CrediFamiglia4You" (www.credifamiglia4you.it) portal dedicated to customers in the NPL Area, active since December 2017, makes it possible monitor your credit rating and, at a later stage, will enable payments directly online;
- in the Leasing sector there are two portals dedicated to the customers of IFIS Leasing (myhome.bancaifisimpresa.it) and IFIS Rental Services (clientautolease.ifisleasing.it) respectively, which provide all information on practices, from initial forms and information sheets to digital invoices. The unification of the portals is scheduled for 2018.

The Banca IFIS Group is also involved in the gradual digitalization of internal processes, aimed at increasing corporate efficiency, reducing operational risks and achieving greater effectiveness in the sales process:

- agents in the NPL Area have tablets and a specific application that enables graphometic signatures for the real-time acceptance of repayment plans agreed with customers, while a vocal order tool is available at call centres;
- IFIS Leasing has adopted a strong authentication system in the Transportation sector with "One Time Password" (OTP), the most advanced digital signature, which will be extended to all sectors in 2018;
- Customer Relationship Management systems and "Data Certa Digitale" processes have been adopted by all business areas;
- the updating of equipment provided to Bank staff has continued with the objective of increasing flexibility, for example with the progressive replacement of landlines with smartphones for all company employees and the promotion of greater laptop use.

To coordinate and steer the various initiatives associated with highly digital and innovative projects, the Bank is setting up a dedicated "competence centre" within the ICT function. This will work alongside the Digital Factory (created in early 2016) and the Web Innovation area, which focus on digitising internal processes and developing customer experience and web design solutions, respectively.

Quality of products and services

The quality of the services and products offered has a significant impact on the perceived reliability and security of the Bank as well as those operating on its behalf, the sense of proximity perceived by customers, and the satisfaction with the service rendered.

Quality is therefore strategic for the Group, which seeks to consolidate its reputation in Italy and abroad through the transparency of its actions and the quality of the products and services it offers—as well as to

Policies and other reference documentation

- Code of Ethics
- Policy for approving new products and services, starting new operations, and entering new markets

Leasing

- Leasing strike zone EF, HFS, Auto & Trucks

NPL Area

- Organisational procedure for collecting debts through non-judicial actions study, design and test products and services that are always aligned with the market's needs and of the best possible quality.

Through a Policy for approving new products and services, starting new operations, and entering new markets, the Group sets the rules for developing and distributing new products in accordance with business strategies and objectives.

In the Leasing area, the high quality of assets provided is ensured by only taking into consideration products with European certification and excluding, as an additional guarantee, the offer of assembled goods. In the preliminary phase of new business relationships with a potential supplier or partner, and before purchasing assets to be leased to customers, a number of checks are activated:

- in the case of potential affiliated partners/vendors, with which the bank intends to establish an on-going relationship, the activation of commercial agreements is subject to an investigation aimed at verifying the quality of the assets supplied and compliance with the criteria of reliability, credibility and solidity from a financial and reputational standpoint. A Code of Conduct must also be signed in order to conclude commercial agreements;
- in the case of occasional suppliers (for example, proposed directly by the customer for the purchase of a specific asset), checks aim to verify the quality of the asset, the actual existence of the company and the possession of main credentials, in order to prevent any fraud involving the brand and the customer.

In order to improve the quality of the service and the professionalism of the physical network, internal and external technical and product training is provided for employees through the "Leasing & Rental Academy".

For products and services offered by the Banca IFIS Impresa brand, our commitment is to guarantee customers a high level of service through quick and timely responses that stand out on the market. In 2017, a streamlining project was also activated for the Product Catalogue, currently focused on Banca IFIS Impresa, aimed at simplifying the offer and improving the sales experience for customers.

The NPL Area promotes on-going operator-customer relationships to ensure that trust is consolidated over time, and implements various safeguards to guarantee the quality of service provided by network operators (debt collection companies, agents, internal call centres), including:

- credentials and qualifications: all agents must be registered in the list of the OAM (Association of Credit Agents and Brokers). If they are not registered, Banca IFIS accompanies operators throughout the certification process, from training up to the final exam. Prior to activation, debt collection companies are verified with regard to reliability, credibility and financial soundness;

incentives for agents and debt collection employees: strict KPIs verify the quality of work practices, with penalties envisaged in case of repeated low quality of the work performed.To evaluate the effectiveness of the adopted management approach, the Business Areas that own each product or service verify whether those comply with the Bank's sales processes to make sure the customer's needs are met effectively, and the control functions can schedule and conduct reviews in accordance with the Bank's policy.

Specifically concerning the definition and introduction of new products and services, the Compliance function monitors the risk of non-compliance, for instance by assessing the adequacy of controls relative to applicable laws or verifying the compliance of the proposed advertising campaign, and, in partnership with the Human Resources function, evaluates the adequacy of employee training in raising awareness about the risks inherent in the new product and how to mitigate them. The Anti-Money Laundering function helps evaluate the risk that the new initiative could pose to the Bank concerning the potential for it to become involved in money-laundering and terrorist financing as a result of the new product.

Transparency towards customers

Policies and other reference documentation

- Code of Ethics
- Organisational procedure for marketing communications to customers

Transparency towards customers impacts their trust in the Bank, which represents the basis for a healthy and long-lasting relationship—and therefore an asset to protect and develop. This concerns both the various communications issued by the physical network as well as specific contractual aspects within the different Business Lines.

The Group establishes direct relationships with its customers and operates guided by principles of professionalism, honesty, and transparency, providing detailed information on their mutual obligations and any potential risks inherent in the transactions carried out.

All contractual relationships, communications, and documents are written in a clear and comprehensible manner, ensuring customers fully understand the decisions they make. The NPL Area has an additional mechanism in place to guarantee the transparency of the agent-customer relationship: at the end of each visit by the agent, the customer must sign a "*Meeting report*" describing what transpired during the meeting and any agreements made. Also when transmitting information to external parties, through advertising or other channels, the Group makes sure its communications are honest, true, clear, transparent, verifiable, and consistent with business policies and programmes.

The Terms and Transparency Office, which is part of the Operations function, is the organisational unit responsible for managing transparency processes towards customers and the terms applicable to the products offered by the Bank at a centralised level, as well as for operations subject to transparency regulations (e.g. sending recurring documents to customers) and helping the Business Areas prepare customer communications. The Compliance function supervises the implementation of banking transparency regulations and is also involved in preparing communications about significant changes to the terms and conditions applicable to a product or service to ensure they are written clearly.

In 2017, there were no incidents of non-compliance concerning the transparency of information on the Bank's products and services or marketing communications.

IFIS Responsibility

Prevention of indirect environmental impacts

Policies and other reference documentation

- Code of Ethics
- Leasing strike zone EF, HFS, Auto & Trucks

When making its decisions, the Group takes into account the compatibility of business opportunities with environmental needs, in accordance with applicable laws.

Concerning specifically the type of products and services it offers through its Business Areas, the Banca IFIS Group has started focusing on how to manage the indirect environmental impacts caused by Leasing operations, which involve providing assets to several industrial sectors—some of which have an impact on the environment.

The "strike zones" governing Leasing operations in the different industrial sectors identify:

- the sectors in which the Group has decided not to operate because they cause or could cause significant environmental impacts (e.g. transportation of hazardous materials and asbestos, nuclear waste disposal, etc.);

- specific assets that the Group has decided to exclude from its operations because they negatively impact the environment.

Meanwhile, concerning other forms of financing, to date the Group has not identified potential impacts requiring to define specific policies or criteria focused on these aspects for the purpose of assessing counterparties.

Support to the community

Policies and other reference documentation

- Code of Ethics

The Banca IFIS Group places special emphasis on strengthening its relationship with the communities in which it operates as well as regional and national stakeholders—evidence of its commitment to not only promoting entrepreneurship and a business culture, but also supporting charitable entities and associations, working on projects with schools and Universities, and hosting initiatives and events for the public or the business community on its premises.

The Communication & Investor Relations function plans and organises the Group's events, initiatives and charitable donations in these areas, ensuring compliance with the principles and rules of conducts set out in the Code of Ethics as far as transparency, compliance with the law, the selection of recipients, and the accounting for the payments made are concerned.

Here below are the main initiatives carried out during 2017.

Donations and Sponsorships

Metti in Banca il tuo Cuore (Put your Heart in the Bank)	Banca IFIS has been working for several years now with Associazione Amici del Cuore, a non-profit organisation that promotes initiatives concerning preventive healthcare, secondary rehabilitation and healthcare education as well as supports research in cardiovascular diseases. Once again in 2017, Banca IFIS supported the organisation with a donation and celebrated the World Heart Day, an event that promotes preventive healthcare organised by the Association in partnership with the Municipality of Venice.
Charitable Christmas	Banca IFIS decided to make the Christmas holidays an opportunity for charity by reserving part of the budget usually dedicated to company parties for a charitable project Specifically, in early 2017 it finished supporting the ABIO (*Assistenza Bambini in Ospedale*, Aid for Hospitalised Children) Association, which operates in the paediatric units of the hospitals in Mestre and Milan. The Bank's donation allowed to buy toys and other goods to aid the recovery of children and their families. The Bank will host a similar initiative in 2018 thanks to the budget set aside during the 2017 holiday season.
Banca IFIS for schools	The importance of people's development for Banca IFIS has led the Group to promote access to information technology in schools in order to improve teaching and, therefore, learning. In 2017, the Bank donated 200 company PCs to 22 primary and secondary schools in Mestre, Milan, and Mondovì based on recommendations by colleagues. The Bank installed open-source operating systems and software on the devices—which, although no longer used, are fairly recent and in good condition—to make them immediately ready for use.

Relationships with schools, universities, and the public

Dual training	Banca IFIS has given 8 students from 7 different high schools in Milan the opportunity to attend a two-week training programme (approximately 80 hours) at the Bank. Specifically, the students attended group sessions where internal speakers explained the topics of the programme as well as spent time within the individual functions working on a mini-project assigned to them.
Banca IFIS and Universities	Banca IFIS's commitment to building relationships with young students at local Universities, with their ideas and skills, led 16 students from the University of Padua and Venice's IUAV to be actively involved in the communication of the Botteghe Digitali project as well as the development of digitisation projects at the selected companies.
Festival of Politics	Once again in 2017, Banca IFIS sponsored Mestre's “Festival of Politics”, which seeks to promote a discussion about the main Italian and international political, economic and social issues.

Methodological Note

Reporting method

The Non-Financial Statement has been prepared according to the "Global Reporting Initiative Sustainability Reporting Standards" (hereinafter referred to as GRI Standards), issued in 2016 by the Global Reporting Initiative, following the "GRI-referenced" approach with respect to the selction of GRI Standards listed in the following table.

Specifically, for each material topic, the policies implemented and the due diligence processes were described on the basis of the requirements of the Legislative Decree n. 254/2016 and on the "Disclosure on Management Approach" requirements in the GRI Standards, while performance indicators were selected among those proposed by GRI based on their materiality and representativeness relative to the Group's situation and businesses.

The following table lists the GRI Standards selected for the purposes of the Non-Financial Statement, including "GRI G4 Financial Services Sector Disclosures":

Chapters	Paragraphs	GRI Standards referred to in the 2017 Non-Financial Statement		Notes
3. Governance and risk management	**Governance**	102-18	Governance structure	Please see also the 2017 Corporate Governance Report
		103-2	The management approach and its components	
	Business management model	103-2	The management approach and its components	
		103-3	Evaluation of the management approach	
		102-17	Mechanisms for advice and concerns about ethics	
	Risk management	103-2	The management approach and its components	
		102-15	Key impacts, risks, and opportunities	
		102-30	Effectiveness of risk management process	
4. IFIS Integrity	**Integrity and ethics**	102-16	Values, principles, standards, and norms of behaviour	
		103-2	The management approach and its components	
		102-17	Mechanisms for advice and concerns about ethics	
	Prevention of corruption	103-2	The management approach and its components	
		205-2	Communication and training about anti-corruption policies and procedures	Informations related to communication about anti-corruption policies to government institutions, workers and business partner (*a, b, c*) and training about anti-corruption policies to government institutions (*d*) non available for the year 2017.
		205-3	Confirmed incidents of corruption and actions taken	
	Regulatory compliance	103-2	The management approach and its components	
		419-1	Non-compliance with laws and regulations in the social and economic area	
	Credit quality	103-2	The management approach and its components	
	Transparency towards the market	103-2	The management approach and its components	
	Personal data protection	103-2	The management approach and its components	
		418-1	Substantiated complaints concerning breaches of customer privacy and leaks, thefts, or losses of customer data	
	Information security	103-2	The management approach and its components	
5. IFIS People	**Employment and integration**	103-2	The management approach and its components	
		401-1	New employee hires and employee turnover	

		102-8	Information on employees and other workers	Detail for geographical distribution (*b*) not available for the year 2017.
		102-41	Collective bargaining agreements	
		405-2	Diversity of governance bodies and employees	Please see also the 2017 Corporate Governance Report
	Training	103-2	The management approach and its components	
		404-1	Average hours of training per year per employee	
		404-2	Programmes for upgrading employee skills and transition assistance programmes	Informations about transition assistance programmes (b) not available for the year 2017.
	Performance evaluation	103-2	The management approach and its components	
		404-3	Percentage of employees receiving regular performance and career development reviews	
	Remuneration	103-2	The management approach and its components	
		401-2	Benefits provided to full-time employees	Detail for geographical distribution (*b*) not available for the year 2017
		405-2	Ratio of basic salary and remuneration of women to men	Informations about the overall remuneration and detail for geographical distribution not available for the year 2017.
	Non-discrimination	103-2	The management approach and its components	
		406-1	Incidents of discrimination and corrective actions taken	
	Occupational health and safety	103-2	The management approach and its components	
		403-1	Workers representation in formal joint-management worker health and safety committees	
		403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Informations about occupational diseases lost days, and absenteeism, and number of work-related fatalities of the workers (*a*) and external collaborators (*b*) non available for the year 2017.
6. IFIS Customers	**Support to enterprises and customers' financial inclusion**	103-2	The management approach and its components	
		FS14	Initiatives to improve access to financial services for disadvantaged people	Informations about the target, extension scope and progress of the initiatives not available for the year 2017.
	Digital innovation	103-2	The management approach and its components	
	Quality of products and services	103-2	The management approach and its components	
	Transparency towards customers	103-2	The management approach and its components	
		417-2	Incidents of non-compliance concerning product and service information and labelling	
		417-3	Incidents of non-compliance concerning marketing communications	
7. IFIS Responsibility	**Prevention of indirect environmental impacts**	103-2	The management approach and its components	
		102-11	Precautionary principle or approach	
		FS1	Policies with specific environmental and social components applied to business lines	Informations about policies' influence on decisions about products / services and communication with stakeholders not available for the year 2017.
	Support to the community	103-2	The management approach and its components	

As for the process, the business functions and the main Business Areas have been involved in both identifying the topics to focus the reporting on and gathering the qualitative and quantitative data necessary to prepare the Statement. Information was gathered through a centralised process as part of which Banca IFIS's functions consolidated the data received from all subsidiaries under the supervision of the Finance function.

The Non-Financial Statement is prepared annually and includes a comparison with the information provided in previous years. Since 2017 is the first year the Group is publishing the Non-Financial Statement as per Italian Legislative Decree 254/16, the document provides a comparison only with the data already published in the introduction to the 2016 Consolidated Financial Statements; for the remaining data, a comparison with prior years will be available only starting with the next Non-Financial Statement. The data is sourced from accounting and non-accounting records as well as the other IT systems in use at the competent functions, and validated by the relevant department heads.

The Non-Financial Statement is audited only to a limited extent by an independent auditor, EY S.p.A., which audits also the Banca IFIS Group's financial statements.

Materiality analysis method

The materiality analysis carried out for the purposes of the 2017 Non-Financial Statement is based on the methodological references set out in the GRI 2016 Sustainability Reporting Standards and the Communication 2017/C 215/01 from the European Commission ("Guidelines on non-financial reporting"). In addition, the Group also considered the GRI's Financial Services Sector Supplement and the Guidelines issued by the Italian Banking Association (ABI, *Associazione Bancaria Italiana)* on the application of the GRI's indicators and the Social Reporting Standards of the GBS Association (*Gruppo di Studio per il Bilancio Sociale*) to the bank.

The process involved analysing internal and external sources of documentation, which allowed to identify the topics potentially material to the company (in terms of objectives, strategies, policies, management approaches and systems) and the external context (in terms of the main sectoral issues and topics material to institutional stakeholders, standard setters, investors, and financial analysts). As for external sources, since this is the first year the Group is publishing the non-financial statement, it decided not to specifically involve external stakeholders, giving priority to information already available within the company and consolidating the internal expertise and culture concerning these topics.

Based on the results of the analyses carried out, the Bank defined a list of potentially material topics and then matched them with the areas set out in the Decree. Involving the heads of the main functions and Business Areas allowed to refine and validate the list of potentially material topics as well as gather information on strategic priorities, the current management approaches, the main risks and impacts, and potential emerging regulatory drivers for the topics that concern each function.

Based on the information gathered from interviews as well as internal and external sources, Banca IFIS ranked the material topics (see the chapter "Topics material to stakeholders") through a quali-quantitative analysis, and this allowed to identify the issues to address in the 2017 Consolidated Non-Financial Statement.

Some of the topics that were not considered material based on the analysis carried out concern issues expressly mentioned in Italian Legislative Decree 254/16, specifically in Article 3 par. 2. Here below is a detailed explanation of why they were not considered material:

Areas of Italian Legislative Decree 254/16	Specific contents as per Article 3, paragraph 2	Topics considered in the 2017 materiality analysis	2017 materiality analysis result
Environmental topics	Use of energy resources, distinguishing between renewable and non-renewable sources	Energy consumption	The topic was considered material from an external perspective, but immaterial from an internal perspective. Banca IFIS has fewer offices and branches than other banks, given its online-first service model. Overall, the topic was not considered material for the purposes of the 2017 Non-Financial Statement.
Environmental topics	Use of water resources	Water consumption	The topic was considered immaterial from both an external and internal perspective. Water resources are used only for water supply purposes. Overall, the topic was not considered material for the purposes of the 2017 Non-Financial Statement.
Environmental topics	Greenhouse gas and pollutant emissions	Emissions	The topic was considered material from an external perspective, but immaterial from an internal perspective. Banca IFIS has fewer offices and branches than other banks, given its online-first service model. Overall, the topic was not considered material for the purposes of the 2017 Non-Financial Statement.
Employee-related topics	Measures intended to implement the relevant conventions of international and supranational organisations, and how the company maintains a dialogue with the social partners	Industrial relations	The topic was considered immaterial from both an external and internal perspective, specifically because it has become relevant to the Bank only following the recent acquisitions, which brought the existing Works Councils (*Rappresentanze Sindacali Aziendali* in Italian) of the acquired entities into scope. Therefore, this topic may become more material from an internal perspective over time and will be monitored for the purposes of future Non-Financial Statements
Respect for human rights	Actions taken to prevent their violation	Other human rights	Human rights other than the right to non-discrimination (considered material from both an external and internal perspective and included in the 2017 Non-Financial Statement) were considered material from an external perspective, but immaterial from an internal perspective, as the Bank has not identified any risks of direct or indirect violation of human rights considering its operations and businesses.

Methods for calculating indicators and main assumptions

Here below are the methods and assumptions used to calculate quantitative indicators not expressly mentioned by the GRI Standards:

- <u>Employees by employee category</u> (each time this breakdown is presented): foreign employees (19 individuals, including 7 men and 12 women) are included within the “Clerical staff” category, as the classification of employee categories adopted for Italian personnel is not applicable to them
- <u>Rate of new employee hires</u>: the ratio of new employees hired during the year to total employees at 31/ 12
- <u>Turnover rate</u>: the ratio of employee turnover during the year to total employees at 31/12
- <u>Employees covered by collective bargaining agreements</u>: the figure represents all employees based in Italy (1.451) and 6 employees based in Romania, who are covered by local collective bargaining agreements. The remaining 1% are employees based in Poland and subject to local laws, which do not envisage collective bargaining
- <u>Ratio of basic salary of women to men by employee category</u>: basic salary refers to the Gross Annual Salary per employee category
- <u>Injury rate by type</u>: the ratio of injuries occurred to total employees at 31/12

Indipendent auditors' report on the Non-Financial Statement

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

EY S.p.A.
Via Isonzo, 11
37126 Verona

Tel: +39 045 8312511
Fax: +39 045 8312550
ey.com

Independent auditors' report on the consolidated disclosure of non-financial information in accordance with article 3, par. 10, of legislative decree 254/2016 and with article 5 of consob regulation 20267/2018

(Translation from the original Italian text)

To the Board of Directors
of Banca IFIS S.p.A.

We have performed a limited assurance engagement pursuant to Article 3, paragraph 10, of Legislative Decree 30 December 2016, n. 254 (hereinafter "Decree") and article 5 of CONSOB Regulation 18 January 2018 n. 20267, on the consolidated disclosure of non-financial information of Banca IFIS S.p.A. and its subsidiaries (hereinafter the "Group") for the year ended on December 31, 2017, compliant with article 4 of the Decree and approved by the Board of Directors on March 6, 2018 (hereinafter "DNF").

Responsibilities of Directors and Board of Statutory Auditors for the DNF

The Directors are responsible for the preparation of the DNF in accordance with the requirements of articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards" published in 2016 by GRI - Global Reporting Initiative ("GRI Standards"), identified by them as reporting standard, with reference to selected GRI Standards as illustrated in the DNF section "Methodological Note".

The Directors are also responsible, within the terms provided by law, for that part of internal control that they consider necessary in order to guarantee that the preparation of the DNF is free from material misstatements caused by fraud or not intentional behaviors or events.

The Directors are also responsible for identifying the contents of the DNF within the matters mentioned in article 3, par. 1, of the Decree, considering the business and the characteristics of the Group and to the extent deemed necessary to ensure the understanding of the Group's business, its performance, its results and its impact.

The Directors are also responsible for defining the Group's management and organization business model, as well as with reference to the matters identified and reported in the DNF, for the policies applied by the Group and for identifying and managing the risks generated or incurred by the Group.

The Board of Statutory Auditors is responsible, within the terms provided by the law, for overseeing the compliance with the requirements of the Decree.

Auditors' independence and quality control

We are independent in accordance with the ethics and independence principles of the *Code of Ethics for Professional Accountants* issued by the *International Ethics Standards Board for Accountants*, based on fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior. Our audit firm applies the *International Standard on Quality Control 1* (ISQC Italia 1) and, as a result, maintains a quality control system that includes documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable laws and regulations.

Auditors' responsibility

It is our responsibility to express, on the basis of the procedures performed, a conclusion about the compliance of the DNF with the requirements of the Decree and of the "Global Reporting Initiative Sustainability Reporting Standards" published in 2016 by GRI - Global Reporting Initiative ("GRI Standards"), with reference to selected GRI Standards as illustrated in the DNF section "Methodological Note". Our work has been performed in accordance with the principle of "International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (hereinafter "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. This standard requires the planning and execution of work in order to obtain a limited assurance that the DNF is free from material misstatements. Therefore, the extent of work performed in our examination was lower than that required for a full examination according to the ISAE 3000 Revised ("reasonable assurance engagement") and, hence, it does not provide assurance that we have become aware of all significant matters and events that would be identified during a reasonable assurance engagement.
The procedures performed on the DNF were based on our professional judgment and included inquiries, primarily with company's personnel responsible for the preparation of the information included in the DNF, documents analysis, recalculations and other procedures in order to obtain evidences considered appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant topics in relation to the activities and characteristics of the Group reported in the DNF, in order to assess the reasonableness of the selection process applied in accordance with the provisions of article 3 of the Decree and considering the reporting standard applied;
2. analysis and evaluation of the criteria for identifying the consolidation area, in order to evaluate its compliance with the provisions of the Decree;
3. understanding of the following aspects:
    - group's management and organization business model, with reference to the management of the topics indicated in article 3 of the Decree;
    - policies adopted by the Group related to the matters indicated in art. 3 Decree, results achieved and related key performance indicators;
    - main risks, generated or suffered related to the matters indicated in article 3 of the Decree.

    With regard to these aspects, we obtained the documentation supporting the information contained in the DNF and performed the procedures described in item 4. a) below.
4. understanding of the processes that lead to the generation, detection and management of significant qualitative and quantitative information included in the DNF.
    In particular, we have conducted interviews and discussions with the management of Banca IFIS S.p.A. and we have performed limited documentary evidence procedures, in order to collect information about the processes and procedures that support the collection, aggregation, processing and transmission of non-financial data and information to the management responsible for the preparation of the DNF.

Furthermore, for significant information, considering the Group activities and characteristics:

- at Group level (Banca IFIS S.p.A. and its subsidiaries),
  a) with reference to the qualitative information included in the DNF, and in particular to the business model, policies implemented and main risks, we carried out inquiries and acquired supporting documentation to verify its consistency with the available evidence;
  b) with reference to quantitative information, we have performed both analytical procedures and limited assurance procedures to ascertain on a sample basis the correct aggregation of data.
- with regard to IFIS Leasing S.p.A., IFIS Rental Services S.r.l., IFIS NPL S.p.A., IFIS Finance Sp Zoo, which we have selected based on their activity, relevance to the consolidated performance indicators and location, we have obtained documentary evidence about the appropriate application of the procedures and the calculation methods used to determine the indicators.

Conclusions

Based on the procedures performed, nothing has come to our attention that causes us to believe that the DNF of Banca IFIS Group for the year ended on December 31, 2017 has not been prepared, in all material aspects, in accordance with the requirements of articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards" published in 2016 by GRI - Global Reporting Initiative ("GRI Standards"), with reference to selected GRI Standards as illustrated in the DNF section "Methodological Note".

Other aspects

All figures presented in DNF for comparative purposes relating to year ended on December 31, 2016, have not been subject to assurance procedures.

Verona, March 15, 2018

EY S.p.A.

Marco Bozzola
(Partner)

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

Directors' Report

Introductory notes on how to read the data

Here are the events that should be considered when comparing the results to previous periods:

- **Acquisition of the former GE Capital Interbanca Group**: as already mentioned in the financial statements at 31 December 2016, on 30 November 2016 Banca IFIS acquired 99,99% of the former GE Capital Interbanca S.p.A..

  Therefore, the data for the comparative period is reported on a like-for-like basis in terms of the Group's scope only for the month of December.

  Concerning the cost for the acquisition of the former GE Capital Interbanca Group, provisionally estimated at 119,2 million Euro, in July 2017 the Group and the seller agreed to additional adjustments, bringing the final acquisition cost to 109,4 million Euro. The impact of this price adjustment was applied retrospectively to the reporting period ended 31 December 2016. Therefore, at 1 January 2017 the statement of financial position and equity were restated (column "31 December 2016 Restated"), adding 9,8 million Euro to item 160 "Other assets" as well as Equity because of the increase in the profit for the year. This restatement had a corresponding effect on profit or loss at 31 December 2016, causing an equal increase in line item 220 Other operating income/expenses and, therefore, the profit for the year.

  The line item Other assets, which consisted of the receivable due from the seller for the excess consideration paid up front at the transaction date, was settled on 31 July 2017 with the receipt of the relevant exposure.

  This restatement was also reflected in the Consolidated Financial Statements, which present both the amounts of the consolidated financial statements for the year ended 31 December 2016 and the corresponding restated amounts at 1 January 2017 (column "31 December 2016 Restated") as comparative data.

  The tables in this Directors' Report and the Notes to the Consolidated Financial Statements present only the restated amounts as comparative information.
- **Review of business segment funding costs:** external changes, in terms of market rates, as well as internal changes, in terms of composition and funding rates, required updating the internal transfer rates during 2017. To facilitate the comparison of segment data for the two reference periods, the 2016 results have been restated according to the 2017 funding approach.
- **New model to estimate the cash flows of the acquired receivables due from Italy's NHS**: with reference to the comparative data, please note that during 2016 the Bank implemented a new model to estimate the cash flows of the acquired receivables due from Italy's National Health Service. Specifically, the Bank estimates the interest on arrears considered recoverable from the acquisition date based on historical evidence. Banca IFIS estimates cash flows in accordance with the provisions of the joint Bank of Italy/Consob/Ivass document no.7 of 09 November 2016 "Accounting of interest on arrears as per Italian Legislative Decree 231/2002 on performing loans purchased outright". In 2016, the change in estimated cash flows, discounted using the original IRR of the positions, resulted in a 15,8 million Euro change in amortised cost recognised in profit or loss under interest income.

Highlights

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2017	31.12.2016 RESTATED	ABSOLUTE	%
Available for sale financial assets	456.549	374.229	82.320	22,0%
Due from banks	1.777.876	1.393.358	384.518	27,6%
Loans to customers	6.435.806	5.928.212	507.594	8,6%
Total assets	9.569.859	8.708.914	860.945	9,9%
Due to banks	791.977	503.964	288.013	57,1%
Due to customers	5.293.188	5.045.136	248.052	4,9%
Equity	1.368.719	1.228.552	140.167	11,4%

RECLASSIFIED CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (1) (in thousands of Euro)	YEAR		CHANGE	
	2017	2016 RESTATED	ABSOLUTE	%
Net banking income (1)	**519.643**	**325.971**	**193.672**	**59,4%**
Net impairment losses/reversals on receivables and other financial assets (1)	(14.816)	(26.605)	11.789	(44,3)%
Net profit (loss) from financial activities	**504.827**	**299.366**	**205.461**	**68,6%**
Operating costs *net of the gain on bargain purchase*	(256.284)	(202.475)	(53.809)	26,6%
Bargain	-	633.404	(633.404)	n.s.
Group gross profit for the period	248.575	730.295	(481.720)	(66,0)%
Group net profit for the period	**180.767**	**697.754**	**(516.987)**	**(74,1)%**

(1) Net impairment losses on NPL Area receivables, totalling 33,5 million Euro at 31 December 2017 compared to 32,6 million Euro at 31 December 2016, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net impairment losses represent an integral part of the return on the investment.

RECLASSIFIED QUARTERLY CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (1) (in thousands of Euro)	4th QUARTER		CHANGE	
	2017	2016 RESTATED	ABSOLUTE	%
Net banking income (1)	**148.329**	**88.282**	**60.047**	**68,0%**
Net impairment losses/reversals on receivables and other financial assets (1)	(35.243)	(7.113)	(28.130)	395,5%
Net profit (loss) from financial activities	**113.086**	**81.169**	**31.917**	**39,3%**
Operating costs *net of the gain on bargain purchase*	(70.097)	(83.777)	13.680	(16,3)%
Bargain	-	633.404	(633.404)	n.s.
Group gross profit for the period	43.024	630.796	(587.772)	(93,2)%
Group net profit for the period	**31.644**	**631.445**	**(599.801**	**(95,0)%**

(1) Net impairment losses in the NPL Area, totalling 10,4 million Euro in the 4th quarter of 2017 and 9,0 million Euro in the 4th quarter of 2016, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net impairment losses represent an integral part of the return on the investment.

Group KPIs

GROUP KPIs	YEAR		CHANGE
	2017	2016 RESTATED	
ROE	13,9%	99,6%	(85,7)%
ROA	2,6%	8,4%	(5,8)%
Reclassified cost/income ratio (1)	49,3%	51,9%(2)	(2,6)%
Ratio - Total Own Funds	16,15%	15,39%	0,76%
Ratio - Common Equity Tier 1	11,66%	14,80%	(3,1)%
Number of company shares (in thousands)	53.811	53.811	0,0%
Number of shares outstanding at period end(3) (in thousands)	53.433	53.431	0,0%
Book value per share	25,62	22,99	11,4%
EPS	3,38	13,13	(74,3)%
Dividend per share	1,00(4)	0,82	22,0%
Payout ratio	29,6%	6,3%	23,3%

(1) Net impairment losses on NPL Area receivables, totalling 33,5 million Euro at 31 December 2017 compared to 32,6 million Euro at 31 December 2016, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net impairment losses represent an integral part of the return on the investment.
(2) The 2016 cost/income ratio was calculated based on normalised operating costs
(3) Outstanding shares are net of treasury shares held in the portfolio.
(4) Dividend proposed by the Board of Directors

Reclassified results by business segment

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Available for sale financial assets							
Amounts at 31.12.2017	-	-	-	-	-	456.549	**456.549**
Amounts at 31.12.2016	-	-	-	-	-	*374.229*	***374.229***
% Change	-	-	-	-	-	*22,0%*	***22,0%***
Due from banks							
Amounts at 31.12.2017	-	-	-	-	-	1.777.876	**1.777.876**
Amounts at 31.12.2016	-	-	-	-	-	*1.393.358*	***1.393.358***
% Change	-	-	-	-	-	*27,6%*	***27,6%***
Loans to customers							
Amounts at 31.12.2017	3.039.776	1.059.733	1.388.501	799.436	130.571	17.789	**6.435.806**
Amounts at 31.12.2016	*3.092.488*	*905.682*	*1.235.638*	*562.146*	*124.697*	*7.561*	***5.928.212***
% Change	*(1,7)%*	*17,0%*	*12,4%*	*42,2%*	*4,7%*	*135,3%*	***8,6%***
Due to banks							
Amounts at 31.12.2017	-	-	-	-	-	791.977	**791.977**
Amounts at 31.12.2016	-	-	-	-	-	*503.964*	***503.964***
% Change	-	-	-	-	-	*57,1%*	***57,1%***
Due to customers							
Amounts at 31.12.2017	-	-	-	-	-	5.293.188	**5.293.188**
Amounts at 31.12.2016	-	-	-	-	-	5.045.136	***5.045.136***
% Change	-	-	-	-	-	*4,9%*	***4,9%***
Debt securities issued							
Amounts at 31.12.2017	-	-	-	-	-	1.639.994	**1.639.994**
Amounts at 31.12.2016	-	-	-	-	-	1.488.556	***1.488.556***
% Change	-	-	-	-	-	*10,2%*	***10,2%***

RECLASSIFIED DATA ON THE INCOME STATEMENT [(1)] (in thousands of Euro)	TRADE RECEIVABLES [(2)]	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income							
Amounts at 31.12.2017	130.815	146.065	62.677	164.506	15.594	(14)	**519.643**
Amounts at 31.12.2016	*148.514*	*2.952*	*(1.172)*	*148.319*	*13.323*	*14.036*	***325.971***
% Change	*(11,9)%*	*n.s.*	*n.s.*	*10,9%*	*17,0%*	*(100,1)%*	***59,4%***
Net profit (loss) from financial activities							
Amounts at 31.12.2017	97.174	174.421	54.638	164.506	15.296	(1.207)	**504.827**
Amounts at 31.12.2016	*125.208*	*2.889*	*(2.682)*	*148.319*	*12.953*	*9.679*	***299.366***
% Change	*(24,2)%*	*n.s.*	*n.s.*	*10,9%*	*18,1%*	*(112,5)%*	***68,6%***

(1) Net impairment losses on NPL Area receivables, totalling 33,5 million Euro at 31 December 2017 compared to 32,6 million Euro at 31 December 2016, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net impairment losses represent an integral part of the return on the investment.
(2) For comparative purposes, please note that the amount for the previous year included the 15,8 million Euro positive impact from the implementation of the new model to estimate the cash flows of health service receivables.

RECLASSIFIED QUARTERLY INCOME STATEMENT DATA[(1)] (in thousands of Euro)	TRADE RECEIVABLES[(2)]	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income							
Fourth quarter 2017	33.222	37.286	16.148	56.141	3.561	1.971	**148.329**
Fourth quarter 2016	*46.814*	*2.952*	*(1.172)*	*40.936*	*2.967*	*(4.215)*	***88.282***
% Change	*(29,0)%*	*n.s.*	*n.s.*	*37,1%*	*20,0%*	*(146,8)%*	***68,0%***
Net profit (loss) from financial activities							
Fourth quarter 2017	13.757	26.684	12.117	56.141	3.478	909	**113.086**
Fourth quarter 2016	*41.732*	*2.889*	*(2.682)*	*40.936*	*2.866*	*(4.572)*	***81.169***
% Change	*(67,0)%*	*n.s.*	*n.s.*	*37,1%*	*21,4%*	*(119,9)%*	***39,3%***

(1) Net impairment losses in the NPL Area, totalling 10,4 million Euro in the 4th quarter of 2017 and 9,0 million Euro in the 4th quarter of 2016, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net impairment losses represent an integral part of the return on the investment.
(2) For comparative purposes, please note that the amount for the fourth quarter of 2016 included the 15,8 million Euro positive impact from the implementation of the new model to estimate the cash flows of health service receivables.

SEGMENT KPIs (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES
Turnover (1)						
Amounts at 31.12.2017	11.715.442	n.a.	n.a.	n.a.	n.a.	n.a.
Amounts at 31.12.2016	*10.549.881*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
% Change	*11,0%*	-	-	-	-	-
Nominal amount of receivables managed						
Amounts at 31.12.2017	3.768.877	1.892.310	1.518.719	13.074.933	174.522	18.125
Amounts at 31.12.2016	*3.880.835*	*1.739.175*	*1.273.933*	*9.660.196*	*172.145*	-
% Change	*(2,9)%*	*8,8%*	*19,2%*	*35,3%*	*1,4%*	*n.a.*
Cost of credit quality						
Amounts at 31.12.2017	1,15%	*(1,53)%*	0,58%	n.a.	n.a.	n.a.
Amounts at 31.12.2016	*0,79%*	*0,08%*	*1,47%*	*n.a.*	*n.a.*	*n.a.*
% Change	*0,36%*	*(1,61)%*	*(0,89)%*	-	-	-
Net bad loans/Loans to customers						
Amounts at 31.12.2017	1,0%	2,7%	1,1%	66,1%	0,0%	1,2%
Amounts at 31.12.2016	*1,0%*	*3,0%*	*0,5%*	*57,0%*	*0,0%*	*0,0%*
% Change	*0,0%*	*(0,3)%*	*0,6%*	*9,1%*	*0,0%*	*1,2%*
Coverage ratio on gross bad loans						
Amounts at 31.12.2017	89,1%	93,5%	80,9%	n.a.	n.a.	38,9%
Amounts at 31.12.2016	*88,5%*	*94,0%*	*92,2%*	*n.a.*	*n.a.*	-
% Change	*0,6%*	*(0,5)%*	*(11,3)%*	-	-	*n.a.*
Non-performing exposures/Loans to customers						
Amounts at 31.12.2017	7,2%	14,3%	2,4%	99,9%	0,0%	12,7%
Amounts at 31.12.2016	*6,5%*	*19,0%*	*3,0%*	*100,0%*	*0,2%*	*0,0%*
% Change	*0,7%*	*(4,7)%*	*(0,6)%*	*(0,1)%*	*(0,2)%*	*12,7%*
RWAs(2) (3)						
Amounts at 31.12.2017	2.554.528	1.050.284	929.192	801.914	50.325	290.905
Amounts at 31.12.2016	*2.348.131*	*929.337*	*875.153*	*562.146*	*50.004*	*263.512*
% Change	*8,8%*	*13,0%*	*6,2%*	*42,7%*	*0,6%*	*10,4%*

(1) Gross flow of the receivables sold by the customers in a specific period of time.
(2) Risk Weighted Assets; the amount refers exclusively to the financial items reported in the segments.
(3) The Governance and Services sector's RWAs include the investment in IFIS Rental Services, a non-financial company consolidated using the equity method and that is not part of the Banking Group for supervisory purposes.

Reclassified Quarterly Evolution

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2017				YEAR 2016			
	31.12	30.09	30.06	31.03	31.12 RE-STATED	30.09	30.06	31.03
ASSETS								
Available for sale financial assets	456.549	480.815	639.119	635.507	374.229	1.026.744	1.027.770	1.066.413
Due from banks	1.777.876	1.949.613	1.667.462	1.411.235	1.393.358	454.170	153.877	114.691
Loans to customers	6.435.806	5.961.285	6.084.125	5.837.870	5.928.212	3.303.322	3.355.998	3.307.793
Property, plant and equipment	127.881	128.243	109.566	109.675	110.348	62.291	56.729	53.792
Intangible assets	24.483	23.790	18.003	14.199	14.981	10.816	8.929	7.391
Tax assets	438.623	510.367	545.724	571.935	581.016	62.254	64.595	61.791
Other assets	308.641	324.664	380.100	274.960	306.770	76.002	75.300	50.319
Total assets	**9.569.859**	**9.378.777**	**9.444.099**	**8.855.381**	**8.708.914**	**4.995.599**	**4.743.198**	**4.662.190**

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2017				YEAR 2016			
	31.12	30.09	30.06	31.03	31.12 RE-STATED	30.09	30.06	31.03
LIABILITIES								
Due to banks	791.977	965.194	967.285	1.028.971	503.964	56.788	43.587	182.568
Due to customers	5.293.188	5.337.597	5.291.594	5.055.558	5.045.136	4.138.865	3.928.261	3.722.501
Debt securities issued	1.639.994	1.223.979	1.352.375	1.122.879	1.488.556	-	-	-
Tax liabilities	40.076	37.033	34.912	32.423	24.925	15.116	16.180	25.118
Other liabilities	435.905	476.241	514.641	361.912	417.781	198.182	192.973	181.760
Equity:	1.368.719	1.338.733	1.283.292	1.253.638	1.228.552	586.648	562.197	550.243
- Share capital, share premiums and reserves	*1.187.952*	*1.189.610*	*1.179.635*	*1.220.951*	*530.838*	*520.379*	*523.077*	*528.198*
- Profit for the period	*180.767*	*149.123*	*103.657*	*32.687*	*697.714*	*66.269*	*39.120*	*22.045*
Total liabilities and equity	**9.569.859**	**9.378.777**	**9.444.099**	**8.855.381**	**8.708.914**	**4.995.599**	**4.743.198**	**4.662.190**

RECLASSIFIED CONSOLIDATED INCOME STATEMENT (1) QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2017				YEAR 2016			
	4th Q.	3rd Q.	2nd Q.	1st Q.	4th Q. RE-STATED	3rd Q.	2nd Q.	1st Q.
Net interest income	**119.561**	**91.066**	**108.651**	**89.708**	**69.465**	**52.988**	**55.395**	**57.707**
Net commission income	**21.129**	**18.272**	**20.145**	**14.219**	**1.060**	**13.087**	**13.316**	**13.648**
Dividends and similar income	-	8	40	-	-	-	-	-
Net profit (loss) from trading	(276)	11.834	1.306	(1.615)	4	(374)	(86)	(246)
Gain (loss) on sale or buyback of:	7.915	103	17.625	(48)	17.753	21.065	5.694	5.495
- Loans and receivables	1.313	78	17.625	-	17.770	21.065	5.694	-
- Available for sale financial assets	6.602	25	-	(48)	(17)	-	-	5.495
Net banking income	**148.329**	**121.283**	**147.767**	**102.264**	**88.282**	**86.766**	**74.319**	**76.604**
Net impairment losses/reversal on:	(35.243)	1.957	18.614	(144)	(7.113)	(3.731)	(7.496)	(8.265)
- Loans and receivables	(34.315)	(37)	16.846	(874)	(6.761)	(3.731)	(6.449)	(5.313)
- Available for sale financial assets	(1.069)	(297)	(660)	(15)	(357)	-	(1.047)	(2.952)
- Other financial transactions	141	2.291	2.428	745	5	-	-	-
Net profit (loss) from financial activities	**113.086**	**123.240**	**166.381**	**102.120**	**81.169**	**83.035**	**66.823**	**68.339**
Personnel expenses	(24.469)	(24.298)	(25.411)	(24.073)	(23.959)	(14.324)	(14.187)	(13.408)
Other administrative expenses	(48.511)	(34.257)	(38.718)	(31.134)	(55.775)	(24.029)	(28.051)	(18.421)
Net allocations to provisions for risks and charges	1.578	(5.213)	445	(2.342)	1.611	(1.827)	2.157	(3.790)
Net impairment losses/reversals on property, plant and equipment and intangible assets	(2.688)	(2.822)	(2.483)	(3.459)	(2.742)	(1.306)	(1.069)	(938)
Other operating income/expenses	3.993	3.028	(70)	4.620	630.492	(415)	162	748
Operating costs	**(70.097)**	**(63.562)**	**(66.237)**	**(56.388)**	**549.627**	**(41.901)**	**(40.988)**	**(35.809)**
Profit (Loss) from sales of investments	35	-	(2)	(1)	-	-	-	-
Pre-tax profit from continuing operations	**43.024**	**59.678**	**100.142**	**45.731**	**630.796**	**41.134**	**25.835**	**32.530**
Income tax expense for the period	(11.387)	(14.210)	(29.168)	(13.043)	689	(13.985)	(8.760)	(10.485)
Net profit for the year	**31.637**	**45.468**	**70.974**	**32.688**	**631.485**	**27.149**	**17.075**	**22.045**
Net profit attributable to non-controlling interests	(7)	2	4	1	40	-	-	-
Net profit attributable to the Parent	**31.644**	**45.466**	**70.970**	**32.687**	**631.445**	**27.149**	**17.075**	**22.045**

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

RECLASSIFIED INCOME STATEMENT DATA BY SEGMENT (1): QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2017				YEAR 2016(2)			
	4th Q.	3rd Q.	2nd Q.	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net banking income	**148.329**	**121.283**	**147.767**	**102.264**	**88.282**	**86.766**	**74.319**	**76.604**
Trade Receivables	*33.222*	*27.451*	*36.346*	*33.796*	*46.814*	*33.723*	*34.312*	*33.665*
Corporate Banking	*37.286*	*43.635*	*41.755*	*23.389*	*2.952*	-	-	-
Leasing	*16.148*	*17.544*	*16.478*	*12.507*	*(1.172)*	-	-	-
NPL Area (1)	*56.141*	*29.408*	*48.453*	*30.504*	*40.935*	*48.974*	*33.801*	*24.608*
Tax Receivables	*3.561*	*3.239*	*5.881*	*2.913*	*2.967*	*2.656*	*3.717*	*3.983*
Governance and Services	*1.971*	*6*	*(1.145)*	*(845)*	*(4.214)*	*1.413*	*2.489*	*14.348*
Net profit (loss) from financial activities	**113.086**	**123.240**	**166.381**	**102.120**	**81.169**	**83.035**	**66.823**	**68.339**
Trade Receivables	*13.757*	*24.935*	*29.086*	*29.396*	*41.733*	*30.074*	*28.050*	*28.352*
Corporate Banking	*26.684*	*50.813*	*69.104*	*27.820*	*2.889*	-	-	-
Leasing	*12.117*	*14.611*	*15.506*	*12.404*	*(2.682)*	-	-	-
NPL Area (1)	*56.141*	*29.408*	*48.453*	*30.504*	*40.935*	*48.974*	*33.801*	*24.608*
Tax Receivables	*3.478*	*3.170*	*5.806*	*2.841*	*2.866*	*2.574*	*3.530*	*3.983*
Governance and Services	*909*	*303*	*(1.574)*	*(845)*	*(4.572)*	*1.413*	*1.442*	*11.396*

(1) Net impairment losses on receivables of the NPL Area were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net impairment losses represent an integral part of the return on the investment.
(2) To facilitate the comparison between the results of the reference periods, the funding cost included in the net interest income for 2016 was recalculated according to the new 2017 funding approach.

Reclassified Group Historical Data[1]

The following table shows the main indicators and performances recorded by the Group during the last 5 years.

HISTORICAL DATA (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED	31.12.2015	31.12.2014	31.12.2013
Available for sale financial assets	456.549	374.229	3.221.533	243.325	2.529.179
Held to maturity financial assets	-	-	-	4.827.363	5.818.019
Loans to customers	6.435.806	5.928.212	3.437.136	2.814.330	2.296.933
Due to banks	791.977	503.964	662.985	2.258.967	6.665.847
Due to customers	5.293.188	5.045.136	5.487.476	5.483.474	4.178.276
Equity	1.368.719	1.218.783	573.467	437.850	380.323
Net banking income (1)	519.643	325.971	407.958	284.141	264.196
Net profit from financial activities	504.827	299.366	373.708	249.631	219.609
Net profit attributable to the Group	180.767	697.714	161.966	95.876	84.841
KPI :					
ROE	13,9%	99,6%	30,4%	23,5%	24,8%
ROA	2,6%	8,4%	3,5%	1,7%	1,3%
Total Own Funds Capital Ratio (2)	16,2%	15,4%	14,9%	14,2%	13,5%
Common Equity Tier 1 Ratio (2)	11,7%	14,8%	14,2%	13,9%	13,7%
Number of shares outstanding at period end(3) (in thousands)	53.433	53.431	53.072	52.924	52.728
Book value per share	25,62	22,99	10,81	8,27	7,21
EPS	3,38	12,94	3,05	1,81	1,61
Dividend per share(4)	1,00	0,82	0,76	0,66	0,57
Payout ratio	29,6%	6,3%	24,9%	36,4%	35,4%

(1) Net impairment losses on receivables of the NPL Area were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net impairment losses represent an integral part of the return on the investment.
(2) The new set of harmonised regulations for banks and investment firms included in EU Regulation no. 575/2013 (CRR) and in Directive 2013/36/EU (CRD IV) is applicable as from 1 January 2014. The data for periods up until 31 December 2013 was calculated according to previous regulations (Basel 2). The Solvency ratio and the Core Tier 1 have been presented under Total Own Funds Ratio and Common Equity Tier 1 Ratio, respectively.
(3) Outstanding shares are net of treasury shares held in the portfolio.
(4) Dividend proposed by the Board of Directors

APM – Alternative Performance Measures

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

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

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

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

ROE - Return on equity (in thousands of Euro)	YEAR	
	2017	2016 RESTATED
A. Net profit attributable to the Group for t	180.767	697.714
B. Average consolidated equity	1.299.098	700.241
ROE (A/B)	**13,9%**	**99,6%**

Average consolidated equity is calculated as follows:

Consolidated equity (in thousands of Euro)	31.12.2016	31.03.2017	30.06.2017	30.09.2017	31.12.2017	Average 2017
Consolidated Equity	1.228.552	1.266.426	1.293.061	1.338.733	1.368.719	1.299.098

Consolidated equity (in thousands of Euro)	31.12.2015	31.03.2016	30.06.2016	30.09.2016	31.12.2016	Average 2016
Consolidated Equity	573.467	550.243	562.245	586.696	1.228.552	700.241

ROA - Return on assets (in thousands of Euro)	YEAR	
	2017	2016 RESTATED
A. Pre-tax profit from continuing operations	248.575	730.295
B. Total assets	9.569.859	8.708.914
ROA (A/B)	**2,6%**	**8,4%**

Reclassified cost/income ratio (1) (in thousands of Euro)	YEAR	
	2017	2016 RESTATED
A. Operating costs	256.284	172.161
B. Net banking income (1)	519.643	331.962
Reclassified cost/income ratio (A/B) (2)	**49,3%**	**51,9%**

(1) Net impairment losses on NPL Area receivables, totalling 33,5 million Euro at 31 December 2017 compared to 32,6 million Euro at 31 December 2016, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net impairment losses represent an integral part of the return on the investment.
(2) The 2016 cost/income ratio was calculated based on normalised operating costs, as reported in the 2016 Directors' Report.

Book value per share (in thousands of Euro)	YEAR	
	2017	2016 RESTATED
A. Number of shares outstanding	53.433.266	53.430.944
B. Consolidated equity	1.368.719	1.228.552
Book value per share (B/A) Euro	**25,62**	**22,99**

Payout ratio (in thousands of Euro)	YEAR	
	2017	2016 RESTATED
A. Consolidated net profit for the year	180.767	697.714
B. Parent company dividends	53.433(1)	43.813
Payout Ratio (A/B)	**29,6%**	**6,3%**

(1) Dividend proposed by the Board of Directors

The Parent company's dividends are calculated as follows:

Parent company dividends	YEAR	
	2017	2016 RESTATED
A. Dividend per share Euro	1,00(1)	0,82
B. Number of shares outstanding	53.433.266	53.430.944
Parent company dividends (AxB)	**53.433.266**	**43.813.374**

(1) Dividend proposed by the Board of Directors

Results’ presentation

Consolidated Highlights (2017 VS 2016)

Net banking income (restated)

+59.4%

519.6 — 2017

326.0 — 2016

Net profit from financial activity (restated)

+68.6%

504.8 — 2017

299.4 — 2016

Net profit

-74.1%

180,8 — 2017

697.8 — 2016 (with restatement)

Total assets

+9.9%

9.569,9 — 2017

8,708.9 — 2016 (with restatement)

Equity

+11.4%

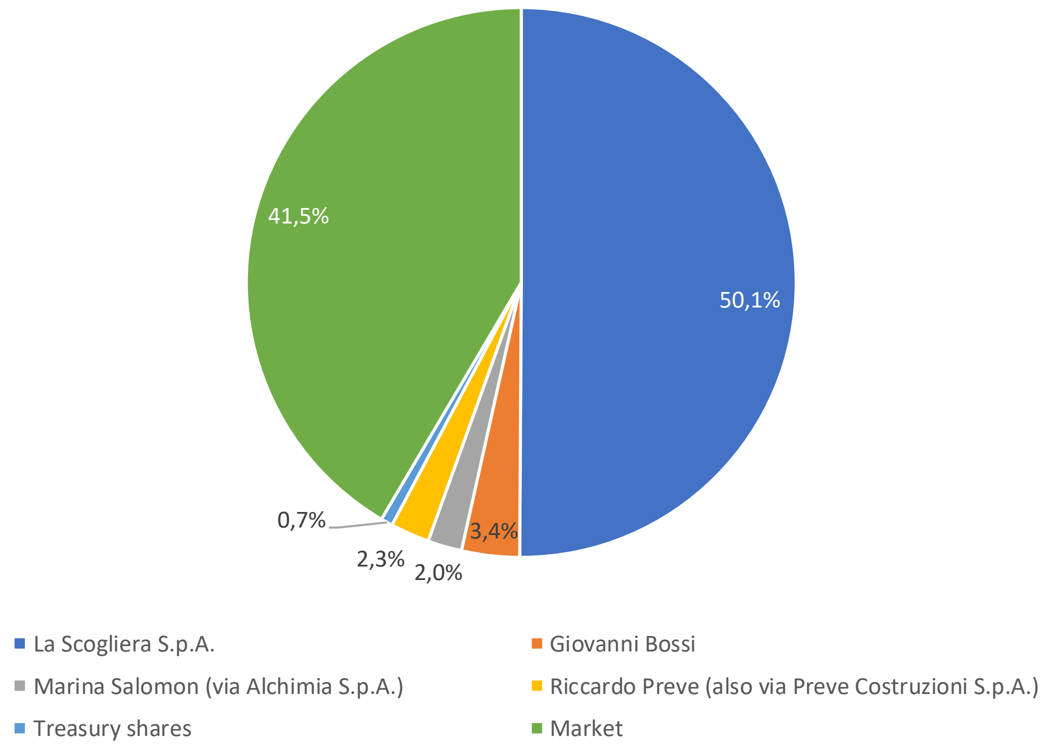
Due to customers

+4.9%

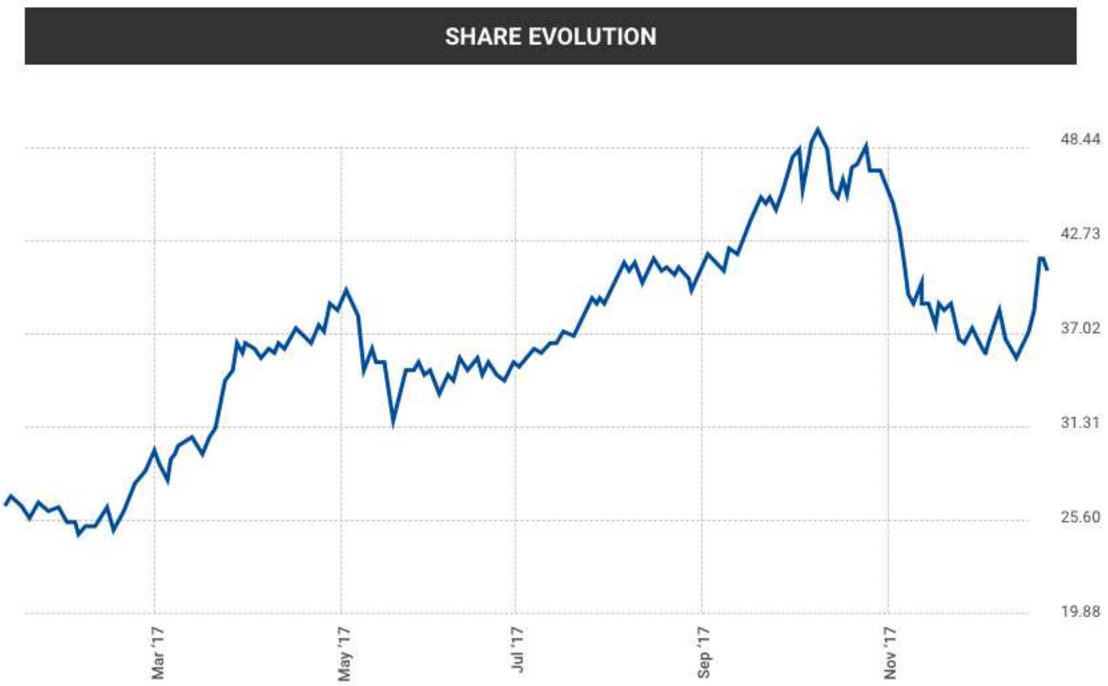
Other data

Shareholders at 31.12.2017

Banca IFIS – Shareholders at 31 December 2017



Share price performance



Impact of regulatory changes

Here below are the regulatory changes introduced in 2017 impacting the Banca IFIS Group:

- Tax aspects: among the latest regulations on tax matters, the following impacted the determination of the Banca IFIS Group's income tax expense for 2017 the most. In particular, Italian Law no 96 of 21 June 2017 reduced the rate of return to be applied to the net change in equity for the calculation of the ACE (Aid for Economic Growth) benefit to 1,6% for 2017 (4,75% in 2016).
- Italian Legislative Decree 254/2016 transposed Directive 2014/95/EU, amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups, into Italian law. As a public-interest entity of a size that falls under the scope of said legislation, starting from the year 2017, the Banca IFIS Group publishes a consolidated Non-Financial Statement in accordance with Italian Legislative Decree 254/16. This statement represents a report separate from this document, which is approved by the Board of Directors and published together with the draft consolidated financial statements at 31 December 2017.

Contribution of business segments

The organisational structure

The model for segment reporting is in line with the organisational structure used by the Head Office to analyse Group results, which, following the acquisition of the former GE Capital Interbanca Group on 30 November 2016, now includes two new sectors: Corporate Banking and Leasing. Since the data related to the comparative period for these new sectors refers exclusively to the month of December 2016, the comparison is not significant.

Therefore, the organisational structure consists of the following segments: Trade receivables, Corporate banking, Leasing, NPL Area, Tax receivables, Governance and Services.

The Governance and Services segment manages the Group's financial resources and allocates funding costs to operating segments through the Group's internal transfer rate system.

external changes, in terms of market rates, as well as internal changes, in terms of composition and funding rates, required updating internal transfer rates during 2017. To facilitate the comparison of the two reference periods, the 2016 results have been restated according to the 2017 funding approach.

INCOME STATEMENT DATA (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income							
Amounts at 31.12.2017	130.815	146.065	62.677	197.971	15.594	(14)	**553.108**
Amounts at 31.12. 2016(1)	*148.514*	*2.952*	*(1.172)*	*180.946*	*13.323*	*14.036*	***358.599***
% Change	*(11,9)%*	*n.s.*	*n.s.*	*9,4%*	*17,0%*	*(100,1)%*	***54,2%***
Net profit (loss) from financial activities							
Amounts at 31.12.2017	97.174	174.420	54.638	164.506	15.296	(1.207)	**504.827**
Amounts at 31.12. 2016(1)	*128.208*	*2.889*	*(2.682)*	*148.319*	*12.953*	*9.679*	***299.366***
% Change	*(24,2)%*	*n.s.*	*n.s.*	*10,9%*	*18,1%*	*(112,5)%*	***68,6%***

(1) To facilitate the comparison between the results of the reference periods, the funding cost included in the net interest income for 2016 was recalculated according to the new 2017 funding approach.

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income							
Fourth quarter 2017	33.222	37.286	16.148	66.543	3.561	1.971	**158.731**
Fourth quarter 2016(1)	*46.814*	*2.952*	*(1.172)*	*49.980*	*2.967*	*(4.214)*	***97.327***
% Change	*(29,0)%*	*n.s.*	*n.s.*	*33,1%*	*20,0%*	*(146,8)%*	***63,1%***
Net profit (loss) from financial activities							
Fourth quarter 2017	13.757	26.683	12.117	56.141	3.478	910	**113.086**
Fourth quarter 2016(1)	*41.732*	*2.889*	*(2.682)*	*40.936*	*2.866*	*(4.572)*	***81.169***
% Change	*(67,0)%*	*n.s.*	*n.s.*	*37,1%*	*21,4%*	*(119,9)%*	***39,3%***

(1) To facilitate the comparison between the results of the reference periods, the funding cost included in the net interest income for 2016 was recalculated according to the new 2017 funding approach.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Available for sale financial assets							
Amounts at 31.12.2017	-	-	-	-	-	456.549	**456.549**
Amounts at 31.12.2016	-	-	-	-	-	*374.229*	***374.229***
% Change	-	-	-	-	-	*22,0%*	***22,0%***
Due from banks							
Amounts at 31.12.2017	-	-	-	-	-	1.777.876	**1.777.876**
Amounts at 31.12.2016	-	-	-	-	-	*1.393.358*	***1.393.358***
% Change	-	-	-	-	-	*27,6%*	***27,6%***
Loans to customers							
Amounts at 31.12.2017	3.039.776	1.059.733	1.388.501	799.436	130.571	17.789	**6.435.806**
Amounts at 31.12.2016	*3.092.488*	*905.682*	*1.235.638*	*562.146*	*124.697*	*7.561*	***5.928.212***
% Change	*(1,7)%*	*17,0%*	*12,4%*	*42,2%*	*4,7%*	*135,3%*	***8,6%***
Due to banks							
Amounts at 31.12.2017	-	-	-	-	-	791.977	**791.977**
Amounts at 31.12.2016	-	-	-	-	-	*503.964*	***503.964***
% Change	-	-	-	-	-	*57,1%*	***57,1%***
Due to customers							
Amounts at 31.12.2017	-	-	-	-	-	5.293.188	**5.293.188**
Amounts at 31.12.2016	-	-	-	-	-	*5.045.136*	***5.045.136***
% Change	-	-	-	-	-	*4,9%*	***4,9%***
Debt securities issued							
Amounts at 31.12.2017	-	-	-	-	-	1.639.994	**1.639.994**
Amounts at 31.12.2016	-	-	-	-	-	*1.488.556*	***1.488.556***
% Change	-	-	-	-	-	*10,2%*	***10,2%***

SEGMENT KPIs (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES
Turnover (1)						
Amounts at 31.12.2017	11.715.442	n.a.	n.a.	n.a.	n.a.	n.a.
Amounts at 31.12.2016	*10.549.881*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
% Change	*11,0%*	-	-	-	-	-
Nominal amount of receivables managed						
Amounts at 31.12.2017	3.768.877	1.892.310	1.518.719	13.074.933	174.522	18.125
Amounts at 31.12.2016	*3.880.835*	*1.739.175*	*1.273.933*	*9.660.196*	*172.145*	-
% Change	*(2,9)%*	*8,8%*	*19,2%*	*35,3%*	*1,4%*	*n.a.*
Cost of credit quality						
Amounts at 31.12.2017	1,15%	(1,53)%	0,58%	n.a.	n.a.	n.a.
Amounts at 31.12.2016	*0,79%*	*0,08%*	*1,47%*	*n.a.*	*n.a.*	*n.a.*
% Change	*0,36%*	*(1,61)%*	*(0,89)%*	-	-	-
Net bad loans/Loans to customers						
Amounts at 31.12.2017	1,0%	2,7%	1,1%	66,1%	0,0%	1,2%
Amounts at 31.12.2016	*1,0%*	*3,0%*	*0,5%*	*57,0%*	*0,0%*	*0,0%*
% Change	*0,0%*	*(0,3)%*	*0,6%*	*9,1%*	*0,0%*	*1,2%*
Coverage ratio on gross bad loans						
Amounts at 31.12.2017	89,1%	93,5%	80,9%	n.a.	n.a.	38.9%
Amounts at 31.12.2016	*88,5%*	*94,0%*	*92,2%*	*n.a.*	*n.a.*	-
% Change	*0,6%*	*(0,5)%*	*(11,3)%*	-	-	*n.a.*
Non-performing exposures/Loans to customers						
Amounts at 31.12.2017	7,2%	14,3%	2,4%	99,9%	0,0%	12,7%
Amounts at 31.12.2016	*6,5%*	*19,0%*	*3,0%*	*100,0%*	*0,2%*	*0,0%*
% Change	*0,7%*	*(4,7)%*	*(0,6)%*	*(0,1)%*	*(0,2)%*	*12,7%*
RWAs(2) (3)						
Amounts at 31.12.2017	2.554.528	1.050.284	929.192	801.914	50.325	290.905
Amounts at 31.12.2016	*2.348.131*	*929.337*	*875.153*	*562.146*	*50.004*	*263.512*
% Change	*8,8%*	*13,0%*	*6,2%*	*42,7%*	*0,6%*	*10,4%*

(1) Gross flow of the receivables sold by the customers in a specific period of time.
(2) Risk Weighted Assets; the amount refers exclusively to the financial items reported in the segments.
(3) The Governance and Services segment's RWAs include the investment in IFIS Rental Services, a non-financial company consolidated using the equity method and that is not part of the Banking Group for regulatory purposes.

Trade receivables

This segment includes the following business areas:

- Crediti Commerciali Italia and Crediti Commerciali International, dedicated to supporting the trade receivables of SMEs operating in the domestic market as well as companies growing abroad or based abroad and working with Italian customers; this area includes the operations carried out in Poland by the investee IFIS Finance's Sp. Z o.o.;
- Banca IFIS Pharma, supporting the trade receivables of local health services' suppliers and pharmacists.

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED (1)	CHANGE	
			ABSOLUTE	%
Net interest income	75.721	92.773	(17.052)	(18,4)%
Net commission income	55.094	55.740	(646)	(1,2)%
Net banking income	**130.815**	**148.513**	**(17.698)**	**(11,9)%**
Net impairment losses on receivables	(33.641)	(20.305)	(13.336)	65,7%
Net profit (loss) from financial activities	**97.174**	**128.208**	**(31.034)**	**(24,2)%**

(1) To facilitate the comparison between the results of the reference periods, the funding cost included in the net interest income for 2016 was recalculated according to the new 2017 funding approach.

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	4th Q. 2017	4th Q. 2016 RESTATED (1)	CHANGE	
			ABSOLUTE	%
Net interest income	18.491	33.121	(14.630)	(44,2)%
Net commission income	14.731	13.693	1.038	7,6%
Net banking income	**33.222**	**46.814**	**(13.592)**	**(29,0)%**
Net impairment losses on receivables	(19.465)	(5.082)	(14.383)	283,1%
Net profit (loss) from financial activities	**13.757**	**41.732**	**(27.975)**	**(67,0)%**

(1) To facilitate the comparison between the results of the reference periods, the funding cost included in the net interest income for 2016 was recalculated according to the new 2017 funding approach.

The net banking income of the Trade Receivables segment amounted to 130,8 million Euro, down 11,9% compared to 148,5 million Euro at 31 December 2016. The amount from the previous year included the 15,8 million Euro positive impact of the review of cash flows from receivables purchased outright (ATD, *Acquisto a Titolo Definitivo* in Italian) due from Italy's National Health Service. This review was conducted in the fourth quarter of 2016, therefore it affects also the quarterly analysis. Excluding this component, net banking income declined by 1,4% on an annual basis and by 7% quarter-on-quarter;

In terms of volumes, the segment generated 11,7 billion Euro in turnover, up 11% from 31 December 2016, with 5.447 active corporate customers, up 2% compared to the prior year. The continued rise in average volumes did not cause a proportional increase in profitability because the average terms offered to customers declined from 2016 as a result of the current economic scenario, with persistently low market rates and strong competitive pressures. Despite this external impact, the overall profitability of loans remained decent thanks to the focus on small customers with high marginal profitability and showed signs of recovery in the fourth quarter of 2017.

Net impairment losses on receivables amounted to 33,6 million Euro (20,3 million Euro in the prior-year period, +65,7%); the increase in impairment losses reported by the Trade Receivables segment in the fourth quarter referred to an individually significant position classified as unlikely to pay.

Therefore, the cost of credit amounted to 115 bps, compared to 79 bps at 31 December 2016; excluding the mentioned impairment loss, it would have amounted to 70 bps.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED	CHANGE	
			ABSOLUTE	%
Net bad loans	31.368	31.692	(324)	(1,0)%
Net unlikely to pay	82.361	50.900	31.461	61,8%
Net past due exposures	105.337	118.420	(13.083)	(11,0)%
Total net non-performing exposures to customers	**219.066**	**201.012**	**18.054**	**9,0%**
Net performing loans	2.820.710	2.891.476	(70.766)	(2,4)%
Total on-balance-sheet loans to customers	**3.039.776**	**3.092.488**	**(52.712)**	**(1,7)%**

Loans to customers included in this segment are composed as follows: 23,6% are receivables due from the Public Administration (compared to 28,3% at 31 December 2016) and 76,4% due from the private sector (compared to 71,7% at 31 December 2016).

Net non-performing exposures in the Trade Receivables segment increased by 9,0% from 201,0 million Euro at the end of 2016 to 219,1 million Euro, largely because of the rise in unlikely to pay.

The segment's net bad-loan ratio was 1,0%, in line with December 2016 (1,0%), while the ratio of net unlikely to pay to loans rose to 2,7% from 1,6% at 31 December 2016, mainly because of the impairment loss recognised on an individually significant position. The segment's ratio of total net non-performing exposures to loans rose from 6,5% at the end of 2016 to 7,2% at 31 December 2017. Net non-performing exposures amounted to 16,0% as a percentage of Group equity, compared to 16,4% in the prior year. The overall coverage ratio of non-performing exposures rose from 57,7% at the end of 2016 to 58,4% at 31 December 2017.

TRADE RECEIVABLES *(in thousands of Euro)*	BAD LOANS(1)	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON-PERFORMING	PERFORMING
BALANCE AT 31.12.2017					
Nominal amount of non-performing exposures	288.295	129.402	109.463	527.160	2.833.578
As a proportion of total gross receivables	*8,6%*	*3,9%*	*3,3%*	*15,7%*	*84,3%*
Impairment losses/reversals	256.927	47.041	4.126	308.094	12.868
As a proportion of gross value	*89,1%*	*36,4%*	*3,8%*	*58,4%*	*0,5%*
Carrying amount	31.368	82.361	105.337	219.066	2.820.710
As a proportion of net total receivables	*1,0%*	*2,7%*	*3,5%*	*7,2%*	*92,8%*
BALANCE AT 31.12.2016					
Nominal amount of non-performing exposures	276.741	76.551	122.451	475.743	2.900.917
As a proportion of total gross receivables	*8,2%*	*2,3%*	*3,6%*	*14,1%*	*85,9%*
Impairment losses/reversals	245.049	25.651	4.031	274.731	9.441
As a proportion of the nominal amount	*88,5%*	*33,5%*	*3,3%*	*57,7%*	*0,3%*
Carrying amount	31.692	50.900	118.420	201.012	2.891.476
As a proportion of net total receivables	*1,0%*	*1,6%*	*3,8%*	*6,5%*	*93,5%*

(1) **Bad loans** are recognised in the financial statements up to the point in which all credit collection procedures have been exhausted.

Net bad loans amounted to 31,4 million Euro, -1,0% from the end of 2016; the coverage ratio was 89,1%, slightly up from 31 December 2016. **Unlikely to pay** were up 61,8% to 82,4 million Euro, and the coverage ratio rose by approximately 8,7%. As already mentioned, this was mainly because of the impairment loss recognised on an individually significant position.

Net non-performing past due exposures totalled 105,3 million Euro, compared with 118,4 million Euro in December 2016 (-11,0%).

KPIs	31.12.2017	31.12.2016 RESTATED	CHANGE	
			ABSOLUTE	%
Turnover	11.715.442	10.549.881	1.165.561	11,0%
Net banking income/ Turnover	1,1%	1,7%	(0,6)%	-
Cost of credit quality	1,15%	0,79%	0,36%	-
Net bad loans/Loans to customers	1,0%	1,0%	0,0%	-
Coverage ratio on gross bad loans	89,1%	88,5%	0,6%	-
Non-performing exposures/Loans to customers	7,2%	6,5%	0,7%	-
Total segment RWAs	2.554.528	2.348.131	206.397	8,8%

The following table shows the nominal amount of receivables acquired (operating data not recognised in the statements) as part of factoring transactions outstanding at the end of the period (Total Receivables), broken down into receivables with or without recourse and receivables purchased outright. Please note that the breakdown of purchased receivables in the following table is based on the contract form used by the Group.

TOTAL RECEIVABLES (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED	CHANGE	
			ABSOLUTE	%
With recourse	2.180.830	2.150.929	29.901	1,4%
of which due from the Public Administration	*304.757*	*332.735*	*(27.978)*	*(8,4)%*
Without recourse	405.288	464.957	(59.669)	(12,8)%
of which due from the Public Administration	*4.531*	*8.949*	*(4.418)*	*(49,4)%*
Outright purchases	1.182.759	1.264.950	(82.191)	(6,5)%
of which due from the Public Administration	*557.906*	*812.384*	*(254.478)*	*(31,3)%*
Total receivables	**3.768.877**	**3.880.836**	**(111.959)**	**(2,9)%**
of which due from the Public Administration	***867.194***	***1.154.068***	***(286.874)***	**(24,9)%**

Corporate Banking

This segment includes the following business areas:

- Medium/long-term financing, supporting the company's operating cycle through services ranging from working capital financing to the support for productive investments;
- Structured Finance, supporting companies and private equity funds in the legal, organisational and financial arrangement of bilateral or syndicated loans;
- Workout & Recovery, which manages the UTPs and Bad Loans of all the portfolios of the sector's other two business areas, as well as the runoff of project finance, shipping and real estate portfolios.
- Special Situation, which provides new medium- and long-term financing to support the financial recovery of businesses that managed to overcome financial distress.

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED	CHANGE	
			ABSOLUTE	%
Net interest income	121.232	8.385	112.847	1.345,8%
Net commission income	8.658	(5.260)	13.918	264,6%
Dividends and trading	16.175	(173)	16.348	9.449,7%
Net banking income	**146.065**	**2.952**	**143.113**	**4.848,0%**
Net impairment losses on receivables, AFS and other financial assets	28.355	(63)	28.418	45.107,9%
Net profit (loss) from financial activities	**174.420**	**2.889**	**171.531**	**5.937,4%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	4th Q. 2017	4th Q. 2016 RESTATED	CHANGE	
			ABSOLUTE	%
Net interest income	34.950	8.385	26.565	316,8%
Net commission income	1.717	(5.260)	6.977	(132,6)%
Dividends and trading	619	(173)	792	457,8%
Net banking income	**37.286**	**2.952**	**34.334**	**1.163,1%**
Net impairment losses on receivables, AFS and other financial assets	(10.603)	(63)	(10.540)	16.730,2%
Net profit (loss) from financial activities	**26.683**	**2.889**	**23.794**	**823,6%**

The net banking income of the Corporate Banking segment amounted to 146,1 million Euro. This amount included the 109,9 million Euro 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 former subsidiary Interbanca S.p.A. over time. This largely arose from the positions allocated to Workout & Recovery and resulting from the debt collection and restructuring actions taken in 2017. In addition, the impact on 2017 was augmented by early repayments and partial collections. The difference between the fair value as measured in the business combination and the carrying amount of the recognised receivables amounted to 281,4 million Euro and will make a positive contribution to the results for future years, considering that the average life of the underlying portfolio is estimated at 3,2 years.

In addition, the segment's margin has started reflecting the positive results of Banca IFIS's decision to refocus on growing the Medium/Long-Term Financing and Structured Finance business areas.

The line item dividends and trading amounted to 16,2 million Euro. This was the result of, among other things, the settlement of a dispute concerning the exit of the former subsidiary Interbanca from the investment in a technology company: in August 2017, the shares were transferred to the majority shareholder.

The positive 28,4 million Euro balance of net impairment losses/reversal arose from the reversal of impairment losses as a result of both debt collection and successful restructuring transactions—especially concerning some individually significant positions. These reversals resulted in a negative 153 bps credit risk cost.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED	CHANGE	
			ABSOLUTE	%
Net bad loans	28.908	27.260	1.648	6,0%
Net unlikely to pay	121.457	142.741	(21.284)	(14,9)%
Net past due exposures	919	1.669	(750)	(44,9)%
Total net non-performing exposures to customers	**151.284**	**171.670**	**(20.386)**	**(11,9)%**
Net performing loans	908.449	734.012	174.437	23,8%
Total on-balance-sheet loans to customers	**1.059.733**	**905.682**	**154.051**	**17,0%**

The overall coverage ratio of non-performing loans, bad loans, and unlikely to pay amounted to 77,5%, 93,5%, and 46,2%, respectively—essentially in line with 31 December 2016.

CORPORATE BANKING LOANS (in thousands of Euro)	BAD LOANS[1]	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON-PERFORM-ING	PERFORMING
BALANCE AT 31.12.2017					
Nominal amount of non-performing exposures	445.381	225.570	945	671.896	926.856
As a proportion of total gross receivables	*27,9%*	*14,1%*	*0,1%*	*42,0%*	*58,0%*
Impairment losses/reversals	416.473	104.113	26	520.612	18.407
As a proportion of gross value	*93,5%*	*46,2%*	*2,8%*	*77,5%*	*2,0%*
Carrying amount	28.908	121.457	919	151.284	908.449
As a proportion of net total receivables	*2,7%*	*11,5%*	*0,1%*	*14,3%*	*85,7%*
BALANCE AT 31.12.2016					
Nominal amount of non-performing exposures	456.184	265.412	1.685	723.281	754.190
As a proportion of total gross receivables	*30,9%*	*18,0%*	*0,1%*	*49,0%*	*51,0%*
Impairment losses/reversals	428.924	122.671	16	551.611	20.178
As a proportion of the nominal amount	*94,0%*	*46,2%*	*0,9%*	*76,3%*	*2,7%*
Carrying amount	27.260	142.741	1.669	171.670	734.012
As a proportion of net total receivables	*3,0%*	*15,8%*	*0,2%*	*19,0%*	*81,0%*

(1) **Bad loans** are recognised in the financial statements up to the point in which all credit collection procedures have been exhausted.

KPIs	31.12.2017	31.12.2016 RESTATED	CHANGE	
			ABSOLUTE	%
Cost of credit quality	(1,53)%	0,08%	(1,61)%	-
Net bad loans/Loans to customers	2,7%	3,0%	(0,3)%	-
Coverage ratio on gross bad loans	93,5%	94,0%	(0,5)%	-
Non-performing exposures/Loans to customers	14,3%	19,0%	(4,7)%	-
Total segment RWAs	1.050.284	929.337	120.947	13,0%

Leasing

This sector provides finance and operating leases—but not real estate leases, as the Group does not offer them—to small economic operators and SMEs.

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED)	CHANGE	
			ABSOLUTE	%
Net interest income	51.137	4.916	46.221	940,2%
Net commission income	11.547	(6.095)	17.642	289,5%
Dividends and trading	(7)	7	(14)	(200,0)%
Net banking income	**62.677**	**(1.172)**	**63.849**	**5.447,9%**
Net impairment losses on loans and receivables	(8.039)	(1.510)	(6.529)	432,4%
Net profit (loss) from financial activities	**54.638**	**(2.682)**	**57.320**	**2.137,2%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	4th Q. 2017	4th Q. 2016 RESTATED	CHANGE	
			ABSOLUTE	%
Net interest income	13.549	4.916	8.633	175,6%
Net commission income	2.600	(6.095)	8.695	(142,7)%
Dividends and trading	(1)	7	(8)	(114,3)%
Net banking income	**16.148**	**(1.172)**	**17.320**	**(1.477,8)%**
Net impairment losses on receivables, AFS and other financial assets	(4.031)	(1.510)	(2.521)	167,0%
Net profit (loss) from financial activities	**12.117**	**(2.682)**	**14.799**	**(551,8)%**

The Leasing segment's net banking income totalled 62,7 million Euro thanks to the new production and the increase in loans as well as 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 subsidiary over time, which amounted to 10,9 million Euro. The difference between the fair value as measured in the business combination and the carrying amount of the recognised receivables amounted to 47,8 million Euro and will make a positive contribution to the results for future years, considering that the average life of the underlying portfolio is estimated at 3,3 years.

Finance and operating leases contributed 46,1 and 16,6 million Euro, respectively, to net banking income.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED	CHANGE	
			ABSOLUTE	%
Bad loans	15.255	6.177	9.078	147,0%
Unlikely to pay	8.719	13.622	(4.903)	(36,0)%
Past due loans	9.482	17.351	(7.869)	(45,4)%
Total net non-performing exposures to customers	**33.456**	**37.150**	**(3.694)**	**(9,9)%**
Net performing loans	1.355.045	1.198.488	156.557	13,1%
Total on-balance-sheet loans to customers	**1.388.501**	**1.235.638**	**152.863**	**12,4%**

The coverage ratio of non-performing loans declined from 77,7% at 31 December 2016 to 73,0% as the Bank reclassified a number of receivables during the period and reviewed the relevant measurements as part of a process to overhaul and gradually standardise the Group's internal credit monitoring and classification procedures.

LEASING LOANS (in thousands of Euro)	BAD LOANS[1]	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON-PERFORMING	PERFORMING
BALANCE AT 31.12.2017					
Nominal amount of non-performing exposures	79.816	23.387	20.783	123.986	1.368.636
As a proportion of total receivables at nominal amount	*5,3%*	*1,6%*	*1,4%*	*8,3%*	*91,7%*
Impairment losses/reversals	64.561	14.668	11.301	90.530	13.591
As a proportion of the nominal amount	*80,9%*	*62,7%*	*54,4%*	*73,0%*	*1,0%*
Carrying amount	15.255	8.719	9.482	33.456	1.355.045
As a proportion of net total receivables	*1,1%*	*0,6%*	*0,7%*	*2,4%*	*97,6%*
BALANCE AT 31.12.2016					
Nominal amount of non-performing exposures	78.997	41.440	46.450	166.887	1.216.150
As a proportion of total gross receivables	*5,7%*	*3,0%*	*3,4%*	*12,1%*	*87,9%*
Impairment losses/reversals	72.820	27.818	29.099	129.737	17.662
As a proportion of the nominal amount	*92,2%*	*67,1%*	*62,6%*	*77,7%*	*1,5%*
Carrying amount	6.177	13.622	17.351	37.150	1.198.488
As a proportion of net total receivables	*0,5%*	*1,1%*	*1,4%*	*3,0%*	*97,0%*

(1) **Bad loans** are recognised in the financial statements up to the point in which all credit collection procedures have been exhausted.

KPIs	31.12.2017	31.12.2016 RESTATED	CHANGE	
			ABSOLUTE	%
Cost of credit quality	0,58%	1,47%	(0,89)%	-
Net bad loans/Loans to customers	1,1%	0,5%	0,6%	-
Coverage ratio on gross bad loans	80,9%	92,2%	(11,3)%	-
Non-performing exposures/Loans to customers	2,4%	3,0%	(0,6)%	-
Total segment RWAs	929.192	875.153	54.039	6,2%

NPL Area

This is the Banca IFIS Group's business area dedicated to non-recourse factoring and managing mostly unsecured distressed retail loans.

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

The Bank manages the portfolio of acquired receivables using two different methods: non-judicial and judicial operations.

Right after the acquisition, pending the completion of information retrieval operations to help decide the most appropriate debt collection method, the receivable is classified in a so-called "staging" area and recognised at cost (94 million Euro at 31 December 2017) with no contribution to profit or loss.

After this phase, which usually lasts between 6 and 12 months, the NPL Area decides the most appropriate method for managing the receivables; non-judicial operations mainly consist in collecting debts by finalising bills of exchange and settlement plans with the debtor, whereas judicial operations consist in collecting debts through legal actions to secure a court order for the garnishment of one fifth of pension benefits or wages.

As for the positions not eligible for judicial operations, after completing the groundwork for processing them, they are classified in a "collective" portfolio pending the collection of the mentioned settlement plans. In this phase, the positions are measured at amortised cost (153,4 million Euro at 31 December 2017), calculated as the net present value of estimated cash flows based on an internal model that projects the "breakdown" of the nominal amount of the receivable "over time" based on the historical recovery profile for similar clusters.

When finalising a settlement plan or bill of exchange, if an amount equal to at least 3 times the average instalment has been paid since the collection date, the positions included in this portfolio will be reclassified to “Positions with formalised bills of exchange or settlement plans”; these are measured at amortised cost (131,3 million Euro at 31 December 2017), calculated as the net present value of estimated cash flows based on the settlement plans, net of the historical default rate.

The positions eligible for judicial operations are managed accordingly. On average, it takes 24 months to secure a garnishment order. During this time, the positions are recognised at cost (297,5 million Euro at 31 December 2017) with no contribution to profit or loss. After obtaining the court's garnishment order, the positions are classified as “Positions with order for the garnishment of one-fifth of pension benefits or wages” and measured at amortised cost (123,4 million Euro at 31 December 2017), calculated as the net present value of estimated cash flows considering the debtor's age and the risk of loss of employment.

Throughout the various phases, the positions may be written off as part of a settlement agreement or, to a lesser extent, collection plans, or reclassified to the collective portfolio if the debtors default on their payments under the agreed plans or garnishment orders.

There are also less significant portfolios originated in corporate banking or real estate segments that are measured either individually or, if no valuation models are available, at cost.

Finally, the Bank occasionally seizes market opportunities by selling portfolios of positions yet to be processed to third parties.

Please refer to Part A – Accounting policies of the Notes to the Consolidated Financial Statements for more details on the measurement of these receivables.

The following table shows a breakdown of the NPL Area's portfolio by debt collection method and method of accounting.

NPL Area Portfolio (in thousands of Euro)	Outstanding nominal amount	Carrying amount	Carr. amount / Out. nom. amount	2017 collections	Impact through profit or loss	Methods of accounting
“Staging” positions	2.512.182	93.707	4%	-	-	Acquisition cost
Non-judicial operations: positions with formalised bills of exchange or settlement plans	602.241	131.337	22%	67.780	75.325	Cost = NPV of individual flows
Other positions undergoing non-judicial processing (“collective” portfolio)	7.292.776	153.440	2%	16.686	1.284	Cost = NPV of flows from model
Judicial operations: positions with order for the garnishment of one-fifth of pension benefits or wages	343.623	123.410	36%	36.106	80.330	Cost = NPV of individual flows
Other positions undergoing judicial processing	2.324.171	297.542	13%	7.736	5.771	Acquisition cost
Total	**13.074.993**	**799.436**	**6%**	**128.308**	**162.710** (1)	

(1) Including 60,6 million Euro in interest income from amortised cost, 135,9 million Euro in Other interest income from change in cash flow, and 33,8 million Euro in Impairment losses/reversals from change in cash flow. It does not include the gains recognised by other sectors arising from operations related to non-NPL Area portfolios.

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED (1)	CHANGE	
			ABSOLUTE	%
Interest income from amortised cost(2)	63.894	35.760	28.134	78,7%
Other interest income	135.921	115.542	20.379	17,6%
Funding costs	(18.864)	(12.664)	(6.200)	49,0%
Net interest income	**180.951**	**138.638**	**42.313**	30,5%
Net commission income	(2.000)	(2.220)	220	(9,9)%
Gain on sale of receivables	19.020	44.529	(25.509)	(57,3)%
Net banking income	**197.971**	**180.947**	**17.024**	9,4%
Net impairment losses/reversals on receivables(2)	(33.465)	(32.628)	(837)	2,6%
Net profit (loss) from financial activities	**164.506**	**148.319**	**16.187**	10,9%

(1) To facilitate the comparison between the results of the reference periods, the funding cost included in the net interest income for 2016 was recalculated according to the new 2017 funding approach.
2) Including the gains recognised by other sectors arising from operations related to non-NPL Area portfolios.

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	4th Q. 2017	4th Q. 2016 RESTATED (1)	CHANGE	
			ABSOLUTE	%
Interest income from amortised cost(2)	18.992	11.555	7.437	64,4%
Other interest income	52.043	25.295	26.748	105,7%
Funding costs	(5.186)	(3.871)	(1.315)	34,0%
Net interest income	**65.849**	**32.979**	**32.870**	**99,7%**
Net commission income	(623)	(769)	146	(19,0)%
Gain on sale of receivables	1.317	17.770	(16.453)	(92,6)%
Net banking income	**66.543**	**49.980**	**16.563**	**33,1%**
Net impairment losses/reversals on receivables(2)	(10.402)	(9.044)	(1.358)	15,0%
Net profit (loss) from financial activities	**56.141**	**40.936**	**15.205**	**37,1%**

(1) To facilitate the comparison between the results of the reference periods, the funding cost included in the net interest income for 2016 was recalculated according to the new 2017 funding approach.
2) Including the gains recognised by other sectors arising from operations related to non-NPL Area portfolios.

Net interest income totalled 180,9 million Euro (+30,5% from the prior-year period) thanks to the strong performance in the management of existing portfolios, resulting in better payment arrangements, as well as the greater interest income generated by the receivables portfolio, which grew also because of the significant acquisitions made during 2017, amounting to a nominal amount of approximately 4,8 billion Euro.

Net impairment losses, amounting to 33,5 million Euro, mainly included 41,5 million Euro in impairment losses on positions for which the net present value of estimated cash flows has fallen below the acquisition price as well as 10,9 million Euro in reversals recognised under line item 130 up to the amount of the previously recognised impairment losses, as the reasons for impairment no longer apply.

These events (NPV of cash flows lower than the purchase price, deceased debtor, and expired statute of limitations), in accordance with the Bank's accounting policy, represented trigger events causing the changes in amortised cost to qualify as impairment losses to be recognised under item 130 - Net value adjustments on receivables. However, the overall net profit from financial activities is more relevant to understanding the segment's performance.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED	CHANGE	
			ABSOLUTE	%
Bad loans	528.226	320.612	207.614	64,8%
Unlikely to pay	270.050	241.518	28.532	11,8%
Past due loans	444	-	444	n.a.
Total net non-performing exposures to customers	**798.720**	**562.130**	**236.590**	**42,1%**
Net performing loans	716	*16*	700	n.s.
Total on-balance-sheet loans to customers	**799.436**	**562.146**	**237.290**	**42,2%**

KPI	31.12.2017	31.12.2016 RESTATED	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables managed	13.074.933	9.660.196	3.414.737	35,3%
Total segment RWAs	801.914	562.146	239.768	42,7%
Nominal amount of acquired receivables	4.745.845	3.091.632	1.654.213	53,5%
Nominal amount of receivables sold	1.147.726	1.247.373	(99.647)	(8,0)%

NPL AREA LOAN PERFORMANCE	31.12.2017	31.12.2016 RESTATED
Receivables portfolio at 31.12.2016	**562.146**	**354.352**
Purchases	239.276	195.606
Sales	(55.408)	(73.028)
Gains on sales	19.020	44.529
Interest income from amortised cost (1)	60.614	35.959
Other components of net interest income from change in cash flow (1)	135.921	115.542
Impairment losses/reversals from change in cash flow(1)	(33.825)	(32.628)
Collections	(128.308)	(78.186)
Receivables portfolio at 31.12.2017	**799.436**	**562.146**

(1) These components do not include the gains recognised by other sectors arising from operations on portfolios not belonging the NPL Area

The line item “Collections” included the instalments received during 2017 on settlement plans as well as pursuant to garnishment orders.

The line item “Sales” included 46,4 million Euro in receipts from the sales of portfolios completed in 2017, as well as 9,0 million Euro arising from the derecognition of the receivables sold that had been recognised through profit or loss in the prior year.

Funding from bills of exchange or settlement plans totalled 302,5 million Euro, down slightly from 312,2 million Euro in 2016 following the review of the incentives for the network, which now encourage funding from plans for which the debtor is more likely to actually pay its debts. These amounts include the par value of all instalments under the plan agreed with the debtor and are usually defined as “Funding” for the period as part of the NPL Area's operations.

At the end of the period, the portfolio managed by the NPL Area included 1.511.899 positions, for a par value of 13,1 billion Euro.

Tax receivables

It is the segment specialised in purchasing tax receivables arising from insolvency proceedings; it operates under the Fast Finance brand and offers to buy both accrued and accruing tax receivables on which repayment has already been requested or which shall be requested in the future, and that arose during insolvency proceedings or in prior years. As a complement to its core business, this segment seldom acquires also trade receivables from insolvency proceedings.

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED (1)	CHANGE	
			ABSOLUTE	%
Net interest income	15.605	13.331	2.274	17,1%
Net commission income	(11)	(8)	(3)	37,5%
Net banking income	**15.594**	**13.323**	**2.271**	**17,0%**
Net impairment losses/reversals on receivables	(298)	(370)	72	(19,5)%
Net profit (loss) from financial activities	**15.296**	**12.953**	**2.343**	**18,1%**

(1) To facilitate the comparison between the results of the reference periods, the funding cost included in the net interest income for 2016 was recalculated according to the new 2017 funding approach.

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	4th Q. 2017	4th Q. 2016 RESTATED (1)	CHANGE	
			ABSOLUTE	%
Net interest income	3.563	2.971	592	19,9%
Net commission income	(2)	(3)	1	(33,3)%
Net banking income	**3.561**	**2.967**	**594**	**20,0%**
Net impairment losses/reversals on receivables	(83)	(102)	19	(17,8)%
Net profit (loss) from financial activities	**3.478**	**2.866**	**612**	**21,4%**

(1) To facilitate the comparison between the results of the reference periods, the funding cost included in the net interest income for 2016 was recalculated according to the new 2017 funding approach.

Net banking income is generated by the interest accrued according to the amortised cost method and funding costs allocated to the segment.
The net banking income of the Tax Receivables segment amounted to 15,6 million Euro, up 17,0% from 13,3 million Euro at 31 December 2016.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED	CHANGE	
			ABSOLUTE	%
Bad loans	-	5	(5)	(100,0)%
Unlikely to pay	-	194	(194)	(100,0)%
Past due loans	-	-	-	-
Total net non-performing exposures to customers	**-**	**199**	**(199)**	**(100,0)%**
Net performing loans	130.571	124.498	6.073	4,9%
Total on-balance-sheet loans to customers	**130.571**	**124.697**	**5.874**	**4,7%**

Since the Public Administration is the counterparty, tax receivables are classified as performing; trade receivables, on the other hand, are classified as non-performing exposures, if required.

KPI	31.12.2017	31.12.2016 RESTATED	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables managed	174.522	172.145	2.377	1,4%
Total segment RWAs	50.325	50.004	321	0,6%
Nominal amount of acquired receivables	78.912	80.226	(1.314)	(1,6)%

TAX RECEIVABLES PERFORMANCE	(in thousands of Euro)
Receivables portfolio at 31.12.2016	**124.697**
Purchases	65.677
Interest income from amortised cost	9.256
Other components of net interest income from change in cash flow	8.536
Impairment losses from change in cash flow	(298)
Collections	(77.297)
Receivables portfolio at 31.12.2017	**130.571**

During the year, the sector collected 77,3 million Euro and purchased 65,7 million Euro worth of receivables.
With these purchases, the segment's portfolio comprises 1.373 positions, for a par value of 174,5 million Euro and a value at amortised cost of 130,5 million Euro at 31 December 2017.

Governance and services

Governance and Services provides the segments operating in the Bank's core businesses with the financial resources and services necessary to perform their respective activities. The segment comprises, among other things, the resources required for the performance of the services of the Audit, Administration-Accounting, Planning, Organisation, ICT, Marketing and Communication, and HR functions, as well as the structures responsible for raising, managing and allocating financial resources to the operating segments. The reported amounts are net of transactions between segments.

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED (1)	CHANGE	
			ABSOLUTE	%
Net interest income	(2.195)	10.140	(12.335)	(121,6)%
Net commission income	477	(1.046)	1.523	(145,6)%
Dividends and trading	1.704	4.942	(3.238)	(65,5)%
Net banking income	**(14)**	**14.036**	**(14.050)**	**(100,1)%**
Net impairment losses/reversals on receivables and other financial assets	(1.193)	(4.357)	3.164	(72,6)%
Net profit (loss) from financial activities	**(1.207)**	**9.679**	**(10.886)**	**(112,5)%**

(1) To facilitate the comparison between the results of the reference periods, the funding cost included in the net interest income for 2016 was recalculated according to the new 2017 funding approach.

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	4th Q. 2016	4th Q. 2016 RESTATED (1)	CHANGE	
			ABSOLUTE	%
Net interest income	(6.439)	(3.861)	(2.578)	66,8%
Net commission income	2.706	(506)	3.212	(634,8)%
Dividends and trading	5.704	153	5.551	n.s.
Net banking income	**1.971**	**(4.214)**	**6.185**	**(146,8)%**
Net impairment losses/reversals on receivables and other financial assets	(1.061)	(358)	(703)	196,4%
Net profit (loss) from financial activities	**910**	**(4.572)**	**5.482**	**(119,9)%**

(1) To facilitate the comparison between the results of the reference periods, the funding cost included in the net interest income for 2016 was recalculated according to the new 2017 funding approach.

The segment reported a 1,2 million Euro **net loss from financial activities**, sharply down from 31 December 2016. This was largely attributable to the lower margins from the securities portfolio (which consists mainly of government bonds) and the increase in funding costs.

As for the securities portfolio, in 2016 it contributed 12,1 million Euro to net interest income, compared to 8,6 million Euro in 2017.

Concerning funding costs, the Group's main sources of funding are the Rendimax savings account and Contomax, which gave rise to 71,9 million Euro in interest expense at 31 December 2017 (4,9 billion Euro in funding), compared to 49,8 million Euro at 31 December 2016 (4,5 billion Euro in funding). The remaining sources of funding are bonds and securitisation transactions, whose costs are borne entirely by the Governance and Services segment.

The net balance resulting from the chargeback of funding costs from Governance and Services to the core business segments “Trade Receivables”, “Corporate Banking”, “Leasing”, “NPL Area”, and “Tax Receivables” was approximately a negative 5,5 million Euro in 2017, compared to a positive 1,1 million Euro in 2016, generating a 6,7 million Euro decline for Governance & Services.

Net impairment losses on available for sale financial assets referred to impairment losses recognised on unlisted equity instruments that were found to be impaired.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED	CHANGE	
			ABSOLUTE	%
Available for sale financial assets	456.549	374.229	82.320	22,0%
Due from banks	1.777.876	1.393.358	384.518	27,6%
Loans to customers	17.789	7.561	10.228	135,3%
Due to banks	791.977	503.964	288.013	57,1%
Due to customers	5.293.188	5.045.136	248.052	4,9%
Debt securities issued	1.639.994	1.488.556	151.438	10,2%

Loans to customers in the Governance and Services segment totalled 17,8 million Euro, sharply up from the prior-year period (+135,3%) as in the third quarter of 2017 the Bank purchased an approximately 15,2 million Euro performing portfolio of retail loans as part of a broader transaction concerning a non-performing portfolio.

Payables due to banks, totalling 792,0 million Euro (compared to 504,0 million Euro in December 2016), increased by 57,1%, because of the new 700,0 million Euro TLTRO loan received in March 2017.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED	CHANGE	
			ABSOLUTE	%
Bad loans	218	-	218	n.s.
Unlikely to pay	348	-	348	n.s.
Past due loans	**1.700**	**-**	1.700	n.s.
Total net non-performing exposures to customers	**2.266**	**-**	**2.266**	n.s.
Net performing loans	15.523	7.561	7.962	105,3%
Total on-balance-sheet loans to customers	**17.789**	**7.561**	**10.228**	**135,3%**

KPI	31.12.2017	31.12.2016 RESTATED	CHANGE	
			ABSOLUTE	%
Total segment RWAs (1)	290.905	263.512	27.393	10,4%

(1) The Governance and Services sector's RWAs includes the investment in IFIS Rental Services, a non-financial company consolidated using the equity method and that is not part of the Banking Group for supervisory purposes.

Group financial and income results

The main line items are commented on below.

Statement of financial positions items

MAIN STATEMENT OF FINANCIAL POSITION ITEMS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2017	31.12.2016 RESTATED	ABSOLUTE	%
Available for sale financial assets	456.549	374.229	82.320	22,0%
Loans to customers	6.435.806	5.928.212	507.594	8,6%
Due from banks	1.777.876	1.393.358	384.518	27,6%
Property, plant and equipment and intangible assets	152.364	125.329	27.035	21,6%
Tax assets	438.623	581.016	(142.393)	(24,5)%
Other assets	308.641	306.770	1.871	0,6%
Total assets	**9.569.859**	**8.708.914**	**860.945**	**9,9%**
Due to customers	5.293.188	5.045.136	248.052	4,9%
Due to banks	791.977	503.964	288.013	57,1%
Debt securities issued	1.639.994	1.488.556	151.438	10,2%
Provisions for risks and charges	21.641	24.318	(2.677)	(11,0)%
Tax liabilities	40.076	24.925	15.151	60,8%
Other liabilities	414.264	393.463	20.801	5,3%
Equity	1.368.719	1.228.552	140.167	11,4%
Total liabilities and equity	**9.569.859**	**8.708.914**	**860.945**	**9,9%**

Available for sale (AFS) financial assets

Available for sale (AFS) financial assets, which include debt and equity securities, stood at 456,5 million Euro at 31 December 2017, +22,0% compared to 374,2 million Euro at the end of 2016.

The valuation reserve, net of taxes, was positive to the tune of 2,3 million Euro at 31 December 2017 (1,5 million Euro at 31 December 2016).

The amount of **debt securities** held at 31 December 2017 was 428,1 million Euro, up 21,2% from 31 December 2016 (353,2 million Euro) largely because of the government bonds (mainly Italian BTPs) purchased in late 2017.

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

Issuer:	2 years	3 years	Over 5 years	Total
Government bonds	30.138	-	397.694	427.832
% of total	*7,0%*	-	*92,9%*	*99,9%*
Banks	-	-	-	-
% of total	-	-	-	-
Other issuers	-	*44*	*201*	*245*
% of total	-	*0,0%*	*0,1%*	*0,1%*
Total	**30.138**	**44**	**397.895**	**428.077**
% of total	**7,0%**	**0,0%**	**93,0%**	**100,0%**

Available for sale financial assets include **equity securities** relating to non-controlling interests in unlisted companies, amounting to 11,7 million Euro (-20,4% compared to 31 December 2016). The decline is attributable to the fair value adjustment of the securities in the portfolio as well as the sale of shares in Cassa di Risparmio di Cesena held through Italy's voluntary Interbank Deposit Protection Fund scheme (FITD, *Fondo Interbancario di Tutela dei Depositi*).

Available for sale financial assets included also 13,7 million Euro in UCITS units, compared to 3,9 million Euro at 31 December 2016: the increase referred to both newly purchased UCITS units and the units obtained following the restructuring of an impaired position—as well as the fair value adjustment for the year.

Receivables due from banks

At 31 December 2017, **receivables due from banks** totalled 1.777,9 million Euro, compared to 1.393,4 million Euro at 31 December 2016. This surplus liquidity is partly intended to ensure the margin necessary to perform day-to-day banking operations and is partly in excess of structural and operational requirements. The liquidity held with central banks, including the reserve requirement, amounted to 1,3 billion Euro.

Loans to customers

Total **loans to customers** amounted to 6.435,8 million Euro, up 8,6% from 5.928,2 million Euro at the end of 2016. Here below is the breakdown by segment.

The loans of the NPL Area rose by +42,2%, mainly because of new acquisitions. Also the loans of the tax receivables and Governance and Services segments were up (+4,7% and +135,3%, respectively) following the acquisition of a performing retail portfolio. Corporate Banking and Leasing contributed 1.059,7 (+17,0%) and 1.388,5 (+12,4%) million Euro, respectively. Trade receivables declined slightly by 1,7% from the end of 2016.

Total net loans to businesses, including the Trade Receivables, Corporate Banking, Leasing, and Tax Receivables sectors, amounted to 6.582,7 million Euro, up 4,9% from December 2016.

The breakdown of loans to customers was as follows: 12,4% are due from the Public Administration and 87,6% from the private sector (compared to 16,9% and 83,1% at 31 December 2016).

Please note that this line item does not include exposures qualifying as “major risks”, i.e. individual exposures amounting to more than 10% of regulatory capital.

LOANS TO CUSTOMERS: BREAKDOWN BY SEGMENT (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2017	31.12.2016 RESTATED	ABSOLUTE	%
Trade receivables	3.039.776	3.092.488	(52.712)	(1,7)%
- *of which net non-performing*	*219.066*	*201.012*	*18.054*	*9,0%*
Corporate Banking	1.059.733	905.682	154.051	17,0%
- *of which net non-performing*	*151.284*	*171.670*	*(20.386)*	*(11,9)%*
Leasing	1.388.501	1.235.638	152.863	12,4%
- *of which net non-performing*	*33.456*	*37.150*	*(3.694)*	*(9,9)%*
NPL Area	*799.436*	562.146	*237.290*	*42,2%*
- *of which net non-performing*	*798.720*	*562.130*	*236.590*	*42,1%*
Tax Receivables	*130.571*	124.697	*5.874*	*4,7%*
- *of which net non-performing*	-	*199*	*(199)*	*(100,0)%*
Governance and Services	*17.789*	7.561	*10.228*	*135,3%*
- *of which with Cassa di Compensazione e Garanzia*	*1.753*	*4.748*	*(2.995)*	*(63,1)%*
- *of which net non-performing*	*2.266*	-	*2.266*	*n.a.*
Total loans to customers	**6.435.806**	**5.928.212**	**507.594**	**8,6%**
- of which net non-performing	***1.204.792***	***972.161***	***232.631***	***23,9%***

Total net **non-performing exposures** amounted to 1.204,8 million Euro at 31 December 2017, compared to 972,2 million Euro at the end of 2016 (+23,9%). The NPL Area's non-performing exposures amounted to 798,7 million Euro (i.e. 66,3% of total non-performing loans), compared to 562,1 million Euro at 31 December 2016 (i.e. 57,8% of total non-performing loans).

Net non-performing loans due exclusively from corporate customers amounted to 403,9 million Euro at 31 December 2017, -1,5% from the end of 2016. The following table shows the gross and net amounts as well as the relevant coverage ratios for each category of non-performing exposure.

LOANS TO BUSINESSES (in thousands of Euro)	BAD LOANS(1)	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL NON-PERFORMING	PERFORMING
BALANCE AT 31.12.2017					
Nominal amount of non-performing exposures	813.492	378.359	131.250	1.323.101	5.259.641
As a proportion of total receivables at nominal amount	*12,4%*	*5,7%*	*2,0%*	*20,1%*	*79,9%*
Impairment losses/reversals	737.961	165.822	15.453	919.236	44.866
As a proportion of the nominal amount	*90,7%*	*43,8%*	*11,8%*	*69,5%*	*0,9%*
Carrying amount	75.531	212.537	115.797	403.865	5.214.775
As a proportion of net total receivables	*1,3%*	*3,8%*	*2,1%*	*7,2%*	*92,8%*
BALANCE AT 31.12.2016					
Nominal amount of non-performing exposures	811.927	383.597	170.586	1.366.110	4.995.755
As a proportion of total receivables at nominal amount	*12,8%*	*6,0%*	*2,7%*	*21,5%*	*78,5%*
Impairment losses/reversals	746.793	176.140	33.146	956.079	47.281
As a proportion of the nominal amount	*92,0%*	*45,9%*	*19,4%*	*70,0%*	*0,9%*
Carrying amount	65.134	207.457	137.440	410.031	4.948.474
As a proportion of net total receivables	*1,2%*	*3,9%*	*2,6%*	*7,7%*	*92,3%*

(1) **Bad loans** are recognised in the financial statements up to the point in which all credit collection procedures have been exhausted.

Here below is the breakdown of forborne exposures by segment.

FORBEARANCE (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. TOTAL
Bad loans							
Amounts at 31.12.2017	1.687	3.248	3.686	54.801	-	2	63.424
Amounts at 31.12.2016	*2.439*	*5.587*	*730*	*33.550*	-	-	*42.306*
% Change	*(30,8)%*	*(41,9)%*	*404,9%*	*63,3%*	-	*n.a.*	*49,9%*
Unlikely to pay							
Amounts at 31.12.2017	16.417	66.995	3.676	55.506	-	-	142.594
Amounts at 31.12.2016	*19.312*	*98.575*	*6.258*	*53.368*	-	-	*177.513*
% Change	*(15,0)%*	*(32,0)%*	*(41,3)%*	*4,0%*	-	-	*(19,7)%*
Past due loans							
Amounts at 31.12.2017	-	634	566	-	-	12	1.212
Amounts at 31.12.2016	-	*1.457*	*2.302*	-	-	-	*3.759*
% Change	-	*(56,5)%*	*(75,4)%*	-	-	*n.a.*	*(67,8)%*
Performing loans							
Amounts at 31.12.2017	5.122	38.850	11.437	-	-	12	55.421
Amounts at 31.12.2016	*6.955*	*35.882*	-	*15*	-	-	*42.852*
% Change	*(26,4)%*	*8,3%*	*n.a.*	*(100,0)%*	-	*n.a.*	*29,3%*

CREDIT QUALITY (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. TOTAL
Bad loans							
Amounts at 31.12.2017	31.368	28.908	15.255	528.226	-	218	603.975
Amounts at 31.12.2016	*31.692*	*27.260*	*6.177*	*320.612*	*5*	*-*	*385.746*
% Change	*(1,0)%*	*6,0%*	*147,0%*	*64,8%*	*(100,0)%*	*n.a.*	*56,6%*
Unlikely to pay							
Amounts at 31.12.2017	82.361	121.457	8.719	270.050	-	348	482.935
Amounts at 31.12.2016	*50.900*	*142.741*	*13.622*	*241.518*	*194*	*-*	*448.975*
% Change	*61,8%*	*(14,9)%*	*(36,0)%*	*11,8%*	*(100,0)%*	*n.a.*	*7,6%*
Past due loans							
Amounts at 31.12.2017	105.337	919	9.482	444	-	1.700	117.882
Amounts at 31.12.2016	*118.420*	*1.669*	*17.351*	*-*	*-*	*-*	*137.440*
% Change	*(11,0)%*	*(44,9)%*	*(45,4)%*	*n.a.*	*-*	*n.a.*	*(14,2)%*
Total net non-performing exposures							
Amounts at 31.12.2017	**219.066**	**151.284**	**33.456**	**798.720**	**-**	**2.266**	**1.204.792**
Amounts at 31.12.2016	***201.012***	***171.670***	***37.150***	***562.130***	***199***	***-***	***972.161***
% Change	***9,0%***	***(11,9)%***	***(9,9)%***	***42,1%***	***(100,0)%***	***n.a.***	***23,9%***
Net performing loans to customers							
Amounts at 31.12.2017	2.820.710	908.449	1.355.045	716	130.571	15.523	5.231.014
Amounts at 31.12.2016	*2.891.476*	*734.012*	*1.198.488*	*16*	*124.498*	*7.561*	*4.956.051*
% Change	*(2,4)%*	*23,8%*	*13,1%*	*4375,0%*	*4,9%*	*105,3%*	*5,5%*
Total on-balance-sheet loans to customers							
Amounts at 31.12.2017	**3.039.776**	**1.059.733**	**1.388.501**	**799.436**	**130.571**	**17.789**	**6.435.806**
Amounts at 31.12.2016	***3.092.488***	***905.682***	***1.235.638***	***562.146***	***124.697***	***7.561***	***5.928.212***
% Change	***(1,7)%***	***17,0%***	***12,4%***	***42,2%***	***4,7%***	***135,3%***	***8,6%***

Intangible assets and property, plant and equipment and investment property

Intangible assets totalled 24,5 million Euro, compared to 15,0 million Euro at 31 December 2016 (+63,4%); the increase was largely attributable to the systems for the integration with the new Core Banking system as well as the reorganisation of some IT systems.

The item refers to software (23,6 million Euro) as well as goodwill (834 thousand Euro) arising from the consolidation of the investment in IFIS Finance Sp.Z o.o.

Property, plant and equipment and investment property totalled 127,8 million Euro, compared to 110,3 million Euro at the end of 2016. The increase referred to photovoltaic plants resulting from the consolidation of Two Solar Park 2008 S.r.l.: the Bank obtained control of the company as part of a debt restructuring.

At the end of the year, the properties recognised under property, plant and equipment and investment property included the important historical building “Villa Marocco”, located in Mestre – Venice and housing Banca IFIS's registered office, as well as two buildings in Milan housing the head office of Banca IFIS.

Since Villa Marocco is a luxury property, it is not amortised, but it is tested for impairment at least annually. To this end, they are appraised by experts specialising in luxury properties. During the year, there were no indications requiring to test the assets for impairment.

Tax assets and liabilities

These items include current and deferred tax assets and liabilities.
Current tax assets, totalling 71,3 million Euro (-18,8% from the end of 2016), included 25,9 million Euro in tax credits from the conversion of deferred tax assets (DTAs) in accordance with Italian Law no. 214/2011, 22,7 million Euro in IRES/IRAP credits claimed in the tax return, and 21,3 million Euro in credits acquired from third parties.
Deferred tax assets, totalling 367,3 million Euro (-25,5% from 493,2 million Euro at the end of 2016), can be classified as follows: 214,6 million Euro in impairment losses on receivables that can be deducted in the following years, 91,4 million Euro in past tax losses that can be carried forward arising from the mergers of Interbanca and IFIS Factoring, 25 million Euro in ACE (Aid for Economic Growth) benefits that can be carried forward, and the remainder referred to mismatch arrangements—including the difference recognised at the time of the business combination for the subsidiary IFIS Leasing (15,8 million Euro), which will be reclassified with the merger in 2018.

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

Here below is the breakdown of the different treatments by type and the relevant impact on CET1 and risk-weighted assets at 31 December 2017:

- the “deferred tax assets that rely on future profitability and do not arise from temporary differences” are deducted from CET1; at 31 December 2017, the 80% deduction amounted to 137,0 million Euro, in accordance with the new regulatory framework of the measures concerning own funds that will be gradually phased in with a transitional period lasting until 2017; in this regard, please note that this deduction, which is to become fully effective in 2018, will be gradually absorbed by the future use of such deferred tax assets; this caused the CET1 ratio to decline by 186 basis points.
- the “deferred tax assets that rely on future profitability and arise from temporary differences” are not deducted from CET1 and receive instead a 250% risk weight: at 31 December 2017, these assets were completely offset by the corresponding deferred tax liability.
- the “deferred tax assets pursuant to Italian Law 214/2011”, concerning impairment losses on receivables that can be converted into tax credits, receive a 100% risk weight; this caused the CET1 ratio to decline by 40 basis points.
- “current tax assets” receive a 0% weight as they are exposures to the Central Government.

CURRENT TAX ASSETS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2017	31.12.2016 RESTATED	ABSOLUTE	%
Irap (regional tax on productive activities)	10.437	10.728	(291)	(2,7)%
Ires (corporate income tax)	12.299	14.078	(1.779)	(12,6)%
Ires on sale of receivables	21.278	21.278	-	-
Credits from DTA Conversion	25.867	41.737	(15.870)	(38,0)%
Others	1.428	15	1.413	9.420,0%
Total current tax assets	**71.309**	**87.836**	**(16.527)**	**(18,8)%**

The main types of deferred tax assets are set out below:

DEFERRED TAX ASSETS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2017	31.12.2016 RESTATED	ABSOLUTE	%
Loans to customers (Law 214/2011)	214.642	192.310	22.332	11,6%
Past tax losses that can be carried forward	91.395	0	91.395	n.a.
Aid for economic growth that can be carried forward	25.032	0	25.032	n.a.
Differences from PPA	15.801	253.030	(237.229)	(93,8)%
Loans to customers	3.095	42.978	(39.883)	(92,8)%
Equipment rental	1.981	1.460	521	35,7%
Provisions for risks and charges	11.588	1.825	9.763	535,0%
Others	3.780	1.577	2.203	139,7%
Total deferred tax assets	**367.314**	**493.180**	**(125.866)**	**(25,5)%**

Deferred tax assets totalled 367,3 million Euro and can be classified as follows: 214,6 million Euro in impairment losses on receivables that can be deducted in the following years, 91,4 million Euro in past tax losses that can be carried forward arising from the mergers of Interbanca and IFIS Factoring, 25 million Euro in ACE (Aid for Economic Growth) benefits that can be carried forward, and the remainder referred to mismatch arrangements—including the difference recognised at the time of the business combination for the subsidiary IFIS Leasing (15,8 million Euro), which will be reclassified with the merger in 2018. The sub-item Other includes temporary differences on various costs with deferred deductibility.

The 125,9 million Euro decline in deferred tax assets was essentially attributable to the reconciliation of the item Differences from PPA (receivables) following the merger of Interbanca.

Finally, please note that, pursuant to the current Tax Consolidation arrangements, deferred tax assets related to the taxable profit for the period were included in Other Assets as an approximately 54,1 million Euro Receivable due from La Scogliera. Current tax liabilities largely refer to IRES/IRAP payables, as showed below.

CURRENT TAX LIABILITIES (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2017	31.12.2016 RESTATED	ABSOLUTE	%
IRES Balance	-	-	-	-
IRAP Balance	1.298	491	807	164,4%
Others	179	-	179	n.a.
Total current tax liabilities	**1.477**	**491**	**986**	**200,8%**

The main types of deferred tax liabilities are shown below:

DEFERRED TAX LIABILITIES (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2017	31.12.2016 RESTATED	ABSOLUTE	%
Loans to customers	27.121	13.293	13.828	104,0%
Property, plant and equipment	9.001	9.433	(432)	(4,6)%
Available for sale securities	1.798	394	1.404	356,3%
Others	679	1.314	(635)	(48,3)%
Total deferred tax liabilities	**38.599**	**24.434**	**14.165**	**58,0%**

The item deferred tax liabilities included 23,6 million Euro in receivables for interest on arrears that will be taxed upon receipt, 9 million Euro in the revaluation of the property in Milan, and 3 million Euro in other mismatches of trade receivables.

Other assets and liabilities

Other assets amounted to 273,0 million Euro at 31 December 2017 (+5,3% compared to the restated amount at 1 January 2017).

The restated balances at 1 January 2017 reflect the 9,8 million Euro price adjustment for the acquisition of the former Interbanca Group, which consists of the receivable due from the seller for the excess consideration paid up front at the transaction date. This receivable was settled on 31 July 2017 with the receipt of the relevant exposure.

The line item included 5,7 million Euro in receivables due from tax authorities for payments on account (stamp duty), 107,7 million Euro in receivables due from the parent company La Scogliera S.p.A. (including 54,1 million Euro as a result of the tax consolidation regime and 53,6 million Euro in tax credits claimed by the latter for excess tax payments from prior years); 9,9 million Euro in funds placed in an escrow account pending the resolution of a dispute, and 24,5 million Euro in VAT credits claimed. Finally, the line item included 38,3 million Euro in deferred costs associated with the NPL Area's judicial debt collection proceedings pending a garnishment order from the judge.

At the end of the year, other liabilities totalled 368,5 million Euro (+9,3% from the end of 2016). The most significant items referred largely to amounts due to customers that have not yet been credited.

Funding

FUNDING (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2017	31.12.2016 RESTATED	ABSOLUTE	%
Due to customers:	**5.293.188**	**5.045.136**	**248.052**	**4,9%**
Repurchase agreements	-	*270.314*	*(270.314)*	*(100,0)%*
Rendimax and Contomax	*4.948.386*	*4.519.260*	*429.126*	*9,5%*
Other term deposits	*104.675*	*101.500*	*3.175*	*3,1%*
Other payables	*240.127*	*154.062*	*86.065*	*55,9%*
Due to banks	**791.977**	**503.964**	**288.013**	**57,1%**
Eurosystem	*699.585*	-	*699.585*	-
Repurchase agreements	-	*50.886*	*(50.886)*	*(100,0)%*
Other payables	*92.392*	*453.078*	*(360.686)*	*(79,6)%*
Debt securities issued	**1.639.994**	**1.488.556**	**151.438**	**10,2%**
Total funding	**7.725.159**	**7.037.656**	**687.503**	**9,8%**

Total funding, which amounted to 7.725,2 million Euro at 31 December 2017, up 9,8% compared to 31 December 2016, is represented for 68,5% by **Payables due to customers** (compared to 71,7% at 31 December 2016), for 10,3% by **Payables due to banks** (compared to 7,2% at 31 December 2016), and for 21,2% by **Debt securities issued** (21,1% at 31 December 2016).

Payables due to customers at 31 December 2017 totalled 5.293,2 million Euro (+4,9% compared to 31 December 2016). The settlement of 270,3 million Euro in repurchase agreements outstanding at 31 December 2016 was more than offset by the rise in retail funding (Rendimax and Contomax): this totalled 4.948,4 million Euro at 31 December 2017, compared to 4.519,3 million Euro at 31 December 2016 (+9,5%). The Bank continued bearing proportional stamp duty costs on rendimax and contomax, which amounted to 0,20%, until the end of the year.

On 31 October 2017, the Bank changed interest rates on the Rendimax savings account and the Contomax current account as well as announced that, as far as retail funding is concerned, effective 1 January 2018 clients will be responsible for stamp duty costs for both the Rendimax savings account and the Contomax current account.

Payables due to banks, totalling 792,0 million Euro (compared to 504,0 million Euro in December 2016), increased by 57,1%, largely because of the 700,0 million Euro (par value) TLTRO tranche obtained in March 2017.

Term deposits at other banks declined to 92,4 million Euro from 453,1 million Euro at the end of the previous year (-79,6%).

Debt securities issued amounted to 1.640,0 million Euro. The item included 850,0 million Euro (1.404,6 million Euro at 31 December 2016) in notes issued by the special purpose vehicle IFIS ABCP Programme S.r.l. as part of the securitisation transaction launched at the end of 2016. The decline compared to 31 December 2016 was largely attributable to the fact that in the first quarter of 2017 the Banca IFIS Group repurchased all notes associated with the securitisations of leasing (Indigo Lease) and lending receivables (Indigo Loan). These were carried out in late 2016 as part of the acquisition of the former GE Capital Interbanca Group.

The line item also included the 300,9 million Euro (including interest) senior bond that Banca IFIS issued in the first half of 2017 as well as the 401,5 million Euro (including interest) Tier 2 bond issued in mid-October 2017. The rest of debt securities issued at 31 December 2017 included 87,0 million Euro in bond loans and 0,6 million Euro in certificates of deposits issued by Interbanca S.p.A..

Provisions for risks and charges

PROVISIONS FOR RISKS AND CHARGES (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2017	31.12.2016 RESTATED	ABSOLUTE	%
Legal disputes	15.463	9.577	5.886	61,5%
Other provisions	6.178	14.741	(8.563)	(58,1)%
Total provisions for risks and charges	**21.641**	**24.318**	**(2.677)**	**(11,0)%**

Here below is the breakdown of the provision for risks and charges at the end of the year by type of dispute compared with the prior year. For the sake of clarity, the provisions deriving from the acquisition of the former GE Capital Interbanca Group are reported separately.

Legal disputes

Banca IFIS legal disputes

The provision outstanding at 31 December 2017, amounting to 7,2 million Euro, included 7,1 million Euro for 22 disputes concerning the Trade Receivables segment (the plaintiffs seek 25,8 million Euro in damages), and 74 thousand Euro for 7 disputes concerning the NPL Area segment (the plaintiffs seek 147 thousand Euro in damages).

Former GE Capital Interbanca Group legal disputes

The provision outstanding at 31 December 2017, amounting to 8,3 million Euro, included 4,8 million Euro for 35 disputes involving IFIS Factoring and IFIS Rental, and 3,5 million Euro for 9 disputes involving the former Interbanca (the plaintiffs seek 50,5 million Euro in damages).

Other provisions

Other Banca IFIS provisions

There were no other provisions outstanding at 31 December 2017.
The provision at 31 December 2016, totalling 2,5 million Euro, referred to the amount set aside for commissions paid in early 2017 in order to buy back the senior tranche of the leasing securitisation (eligible securities).

Other former GE Capital Interbanca Group provisions

The provision outstanding at 31 December 2017, amounting to 6,2 million Euro, included 1,5 million Euro in personnel-related expenses and 4,7 million Euro in other provisions, including 3,3 million Euro for customer allowances and 0,6 million Euro as provision for risks on unfunded commitments.

Contingent liabilities

Here below are the most significant contingent liabilities outstanding at 31 December 2017. Based on the opinion of the legal advisers assisting the subsidiaries, they are considered possible, and therefore they are only disclosed.

For the sake of clarity, the contingent liabilities deriving from the acquisition of the former GE Capital Interbanca Group are reported separately.

Legal disputes

Banca IFIS legal disputes

Banca IFIS recognises contingent liabilities amounting to 2,0 million Euro in claims, represented by 14 disputes: 13 refer to disputes concerning the Trade Receivables segment, for a total of 1,9 million Euro, and 1 to a labour dispute, for 54 thousand Euro. Banca IFIS, supported by the legal opinion of its lawyers, made no provisions for these positions, as the risk of defeat is considered possible.

Former GE Capital Interbanca Group legal disputes

Here below are the most significant contingent liabilities of the former GE Capital Interbanca Group.

Lawsuit against Interbanca to cancel a settlement

A lawsuit was filed against the former Interbanca in 2010 concerning a position for which the company had entered into a settlement agreement with the Receiver appointed at the time for the extraordinary administration proceedings involving a debtor of Interbanca. The new Receiver questioned the validity of the agreement, seeking 168 million Euro in damages from the former Interbanca, among others. During the dispute, some defendants made various demands to the former Interbanca.

The Court deemed the settlement agreement valid and enforceable, dismissing all claims of the Plaintiffs against the former Interbanca. In the first-instance trial of the defendants and the former Interbanca for the remaining claims, whose outcome is still pending, the court-appointed expert witness is preparing his report and has concluded that the three debtors have suffered no damages. The Plaintiffs, not satisfied with the expert witness report, filed a motion to strike/supplement it, but the Court dismissed said motion and ordered only some additional technical analyses. The next hearing is scheduled for 10 April 2018.

The plaintiffs appealed against the first-instance ruling in favour of the Company, but the Appeals Court upheld the decision with a ruling that is now final.

Legal proceedings concerning a lawsuit for damages resulting from an extraordinary operation involving an industrial company as well as environmental damage

In early 2012, the officials of an extraordinary administration proceeding involving a chemical company in which the former Interbanca indirectly held a stake between 1999 and 2004 filed a lawsuit for damages. The lawsuit was filed against the former Interbanca and three former employees to ascertain their alleged responsibility and have them sentenced to pay for the damages allegedly incurred by the creditors because of a spin-off, initially estimated to be at least 388 million Euro. In 2013, the former Interbanca was also sued for causing approximately 3,5 billion Euro in environmental damage. Italy's Ministry of the Environment and the Protection of the Territory and the Sea as well as the Ministry of Economy and Finance joined the proceedings to support the plaintiff's claims. On 10 February 2016, the Court of Milan dismissed the request to join the proceedings filed by said Ministries as inadmissible as well as dismissed all claims for damages filed by the plaintiff against Interbanca and its former employees.

In March 2016, the Ministries and the plaintiff filed an appeal. In November 2016, the former Interbanca and its former employees entered into separate settlement agreement with the plaintiff, which withdrew the lawsuit. The proceeding with the Ministries continues. The case has been adjourned to 20 June 2018.

On 28 July 2015, the Ministry of the Environment and the Protection of the Territory and the Sea served the former Interbanca with an order requiring it and the other recipients effective immediately to take all actions necessary to control, limit, remove or otherwise manage any factor that could potentially cause damage at the three industrial plants operated by the company. On 21 March 2016, the Regional Administrative Court upheld the former Interbanca's appeal and cancelled the order. On 15 July 2016, the Ministry of the Environment and the Protection of the Territory and the Sea appealed against the decision. A hearing has been scheduled for 14 June 2018.

Tax dispute

Banca IFIS tax dispute

On 23 December 2016, Banca IFIS received a VAT verification notice totalling 105 thousand Euro, without assessing any penalties and interest. Banca IFIS, supported by its tax advisers, decided to file an appeal and considered the risk of defeat possible, but not probable: therefore, it did not allocate funds to the provision for risks and charges.

Former GE Capital Interbanca Group tax disputes

Dispute concerning withholding taxes on interest paid in Hungary. Companies involved: former Interbanca Spa (now merged into Banca IFIS Spa) and IFIS Leasing Spa (including the merged entity GE Leasing Italia Spa)

The Italian Revenue Agency contested the failure to pay the 27% withholding tax on the interest paid to the Hungarian company GE Hungary Kft without any withholding tax pursuant to the International Convention between Italy and Hungary for the avoidance of double taxation. The Italian Revenue Agency determined that the Hungarian entity GE Hungary Kft was not the actual beneficiary of the interest paid by the Italian firms, but only a conduit company.

According to the Italian Revenue Agency, the beneficiary is a company allegedly incorporated in Bermuda, therefore the International Convention between Italy and Hungary for the avoidance of double taxation does not apply. Entities in tax havens are subject to a 27% withholding tax.

Therefore, for the years between 2007 and 2012, the Italian Revenue Agency assessed approximately 72,5 and 44,6 million Euro in additional withholding taxes against the merged entity Interbanca Spa and IFIS Leasing Spa, respectively, as well as administrative penalties amounting to 150/250%.

The Companies involved filed an appeal against the verification notices pursuant to the law with the competent Tax Commissions, paying 1/3 of the tax as provisional enrolment on the tax register.

Following the exchange of information pursuant to Council Directive EU/2011/16, Hungary's tax authority concluded that the company GE Hungary Kft must be legitimately considered the beneficiary of the interest received from the Italian counterparties.

So far, all rulings issued by the competent Provincial Tax Commissions (Turin and Milan) have fully upheld the appeals. As expected, the Italian Revenue Agency has appealed against these decisions.

Banca IFIS, supported by its tax advisers, decided to file an appeal and considered the risk of defeat possible, but not probable: therefore, it did not allocate funds to the provision for risks and charges.

Dispute concerning the write-off of receivables

Company involved: IFIS Leasing Spa

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 2012 to losses on receivables—without any actual evidence.

For the years 2004/2012, the Agency assessed 818 thousand Euro in additional taxes and administrative penalties amounting to 100%.

Banca IFIS, supported by its tax advisers, decided to file an appeal and considered the risk of defeat possible, but not probable: therefore, it did not allocate funds to the provision for risks and charges.

Dispute concerning the VAT treatment of insurance mediation activities

Company involved IFIS Leasing Spa

The Italian Revenue Agency challenged the failure to apply the pro-rata mechanism in the years between 2007 and 2010 concerning the VAT deduction for passive transactions in exchange for VAT-exempt commissions received from insurance companies for insurance brokerage operations considered as independent from, and not ancillary to, the core vehicle leasing business (which is subject to VAT).

For the years 2007/2010, the Agency assessed 3 million Euro in additional VAT and administrative penalties amounting to 125%.

Banca IFIS, supported by its tax advisers, decided to file an appeal and considered the risk of defeat possible, but not probable: 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 (GE Capital International Limited) made a series of representations and warranties related to the former 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.

Equity, own funds, and capital adequacy ratios

At 31 December 2017, **Consolidated Equity** amounted to 1.368,7 million Euro, compared to a restated amount of 1.228,6 million Euro (+11,4%) at 1 January 2017 following the definition of the purchase price of the former GE Capital Interbanca Group.
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	
	31.12.2017	31.12.2016 RESTATED	ABSOLUTE	%
Share capital	53.811	53.811	-	0,0%
Share premiums	101.864	101.776	88	0,1%
Valuation reserves:	(2.710)	(5.445)	2.735	(50,2)%
- AFS securities	*2.275*	*1.534*	*741*	*48,3%*
- Post-employment benefits	*20*	*(123)*	*143*	*(116,3)%*
- exchange differences	*(5.005)*	*(6.856)*	*1.851*	*(27,0)%*
- other (specific reval. laws)	*-*	*-*	*-*	*-*
Reserves	1.038.155	383.835	654.320	170,5%
Treasury shares	(3.168)	(3.187)	19	(0,6)%
Equity attributable to non-controlling interests	-	48	(48)	(100,0)%
Net profit for the year	180.767	697.714	(516.947)	(74,1)%
Equity	**1.368.719**	**1.228.552**	**140.167**	**11,4%**

EQUITY: CHANGES	(in thousands of Euro)
Equity at 31.12.2016	**1.218.783**
Change in opening balances	9.769
Equity at 01.01.2017	**1.228.552**
Increases:	**183.981**
Profit for the year	180.767
Sale/grant of treasury instruments	88
Change in valuation reserve:	2.735
- AFS securities	741
- Post-employment benefits	143
- exchange differences	1.851
Other changes	439
Equity attributable to non-controlling interests	(48)
Decreases:	**43.814**
Dividends distributed	43.814
Equity at 31.12.2017	**1.368.719**

The line item “Change in opening balances” reflected the impact of the recalculation of the profit for 2016 on equity following the definition of the purchase price for the former GE Capital Interbanca Group, as detailed in the opening paragraph of this Report “Introductory notes on how to read the data”.

The change in the valuation reserve for AFS securities recognised in the period resulted from the fair value adjustment of the financial instruments in the portfolio.

The change in the valuation reserve for exchange differences refers mainly to exchange differences deriving from the consolidation of the subsidiary IFIS Finance Sp. Z o.o..

Own funds and capital adequacy ratios

OWN FUNDS AND CAPITAL ADEQUACY RATIOS(in thousands of Euro)	AMOUNTS AT	
	31.12.2017	31.12.2016 RESTATED
Common equity Tier 1 Capital[1] (CET1)	859.944	1.038.232
Tier 1 Capital (T1)	898.356	1.055.719
Total own funds	**1.191.097**	**1.079.100**
Total RWA	**7.376.606**	**7.013.074**
Common Equity Tier 1 Ratio	11,66%	14,80%
Tier 1 Capital Ratio	12,18%	15,05%
Total Own Funds Capital Ratio	**16,15%**	**15,39%**

(1) Common Equity Tier 1 capital includes the profit for the period net of estimated dividends.

Consolidated own funds, risk-weighted assets and capital ratios at 31 December 2017 were calculated based on the regulatory principles set out in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR), which were transposed in the Bank of Italy's Circulars no. 285 and 286 of 17. Specifically, Article 19 of the CRR requires to include the unconsolidated Holding of the Banking Group in prudential consolidation.

The approximately 112 million Euro increase in Own Funds compared to 31 December 2016 was largely attributable to:

- 56,0 million Euro arising from the inclusion of the profit for the year attributable to the Group and calculated for regulatory purposes, net of the estimated dividend;
- 137,0 million Euro arising from the deduction of 80% of “Deferred tax assets that rely on future profitability and do not arise from temporary differences” (net of the relevant deferred tax liabilities) from CET1, up from 59,7 million Euro (i.e. the 60% deducted at 31 December 2016), in accordance with the new regulatory framework of the measures concerning own funds that will be gradually phased in with a transitional period lasting until 2017. In this regard, please note that this deduction, which is to become fully effective in 2018, will be gradually absorbed by the future use of such deferred tax assets;
- 65,1 million Euro arising from the decline in the proportion of eligible minority interests, pursuant to Article 84 of the CRR;
- the subordinated bond issued in 2017, with a par value of 400 million Euro and eligible as Tier 2 (T2) capital for 201,9 million Euro, as the share attributable to the Banking Group's Holding.

Total risk-weighted assets rose by more than 360 million Euro, in line with the significant increase in loans to customers and banks.

Although risk-weighted assets grew during the year, the considerable increase in total Own Funds caused the Total capital ratio to reach 16,15% at 31 December 2017, sharply up from 15,39% at 31 December 2016.

Meanwhile, the Common Equity Tier 1 ratio, which amounted to 11,66%, was negatively affected by the decline in the proportion of eligible minority interests, in accordance with Art. 84 of the CRR, as well as the higher deduction applied to the increase in deferred tax assets that rely on future profitability and do not arise from temporary differences. However, this deduction will be gradually absorbed by the future use of such deferred tax assets, in line with the reasonable expectation that the positive trend in the Group's profitability will continue, as explained in the following paragraph “Outlook”.

Specifically, pursuant to the regulations concerning the eligibility of minority interests, the capital needed to meet the minimum regulatory requirement is the lower of the subsidiary's capital (minimum % requirement relative to the subsidiary's RWAs) and the consolidated capital (minimum % requirement relative to consolidated RWAs). The amount of total own funds in excess of the minimum requirement is eligible to the extent of the share attributable to the Group, and the remainder shall be attributed to the minority interests according to the grandfathering regime.

Prior to the merger of Interbanca into Banca IFIS, the subsidiary's minimum capital (relative to Banca IFIS Individual) was significantly lower than the consolidated minimum capital. After the merger, the two requirements are now substantially aligned because of the increase in the RWAs and own funds of the subsidiary: for regulatory purposes, the subsidiary's Common Equity Tier 1 (CET1) capital has risen from approximately 539 million Euro at 31 December 2016 to nearly 1.126 million Euro at 31 December 2017 as a result of the merger of Interbanca S.p.A., and is now aligned with the corresponding consolidated amounts—which already included the impact of the gain on bargain purchase deriving from the acquisition of the former GE Capital Interbanca Group.

This has caused an increase in the amount of capital in excess of the minimum requirement considered eligible to the extent of the share attributable to the Group, with the remainder attributed to the minority interests according to the grandfathering regime.

This was one of the main reasons why CET1 declined from 14,80% at 31 December 2016 to 11,66% at 31 December 2017.

When comparing the results, please note that the Bank of Italy, following the most recent Supervisory Review and Evaluation Process (SREP) conducted in 2016 to review the capitalisation targets of the system's largest intermediaries, required the Banca IFIS Group to meet the following consolidated capital requirements in 2017:

- common equity tier 1 (CET 1) capital ratio of 6,6%, with a required minimum of 5,3%;
- Tier 1 capital ratio of 8,4%, with a required minimum of 7,1%;
- Total Capital ratio of 10,7%, with a required minimum of 9,5%.

The Banca IFIS Group, in accordance with the transitional provisions in the Bank of Italy's Circular no. 285 of 17 December 2013 as amended, calculated its Own Funds at 31 December 2017 by excluding the unrealised gains referring to the exposures to Central Governments classified under “Available for sale financial assets”, resulting in a net positive amount of 1.144 thousand Euro (positive 391 thousand Euro at 31 December 2016).

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

OWN FUNDS AND CAPITAL ADEQUACY RATIOS: BANCA IFIS GROUP SCOPE (in thousands of Euro)	AMOUNTS AT	
	31.12.2017	31.12.2016 RESTATED
Common equity Tier 1 Capital(1) (CET1)	1.152.603	1.109.018
Tier 1 Capital (T1)	1.152.603	1.109.018
Total own funds	**1.552.792**	**1.109.170**
Total RWA	**7.369.921**	**7.008.830**
Common Equity Tier 1 Ratio	15,64%	15,82%
Tier 1 Capital Ratio	15,64%	15,82%
Total Own Funds Capital Ratio	**21,07%**	**15,83%**

(1) Common Equity Tier 1 capital includes the profit for the period net of estimated dividends.

Income statements items

Formation of net banking income

Net banking income totalled 553,1 million Euro, up 54,2% from 358,6 million Euro in the prior year Euro.

Specifically, net banking income from operations with businesses, which include the Trade Receivables, Corporate Banking, Leasing, and Tax Receivables segments, grew by 117,1% to 355,2 million Euro (163,6 million Euro in 2016). The positive performance was the result of a series of factors, such as the consolidation of the former Interbanca Group over the entire 12 months and 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, i.e. 109,9 million Euro for the Corporate Banking segment and 10,9 million Euro for the Leasing segment. Another positive contribution came from the performance of Tax Receivables, while the Trade Receivables segment saw some pressure on margins, especially with medium- and large-sized business customers; however, net banking income for the fourth quarter of 2017 was up 7% on a like-for-like basis compared to the prior-year period, showing that the ongoing repositioning of the segment is starting to paying off. For comparative purposes, please note that the amount for the previous year included the 15,8 million Euro positive impact from the implementation of the new model to estimate the cash flows of health service receivables.

As for the NPL Area, it achieved remarkably positive results by effectively managing existing portfolios as well as improving the quality of payment arrangements. The Area grew by 9,4% even though it sold less portfolios than in the previous year, which resulted in lower capital gains.

Consolidated net banking income was also affected by funding costs (at the end of 2017, interest expense totalled 107,0 million Euro, compared to 57,3 million Euro in 2016), which the Group sought to rationalise throughout the year.

Specifically, Banca IFIS:

- at the end of May, finalised a 300 million Euro stand-alone unrated senior bond issue on the Irish Stock Exchange with a 3-year maturity, a 1,75% coupon rate, and a yield to maturity at issue of 1,85%;
- halfway through October, finalised a 400 million Euro Tier 2 bond issue with a 10-year maturity and callable after 5 years on the Irish Stock Exchange, with a 4,5% coupon rate;
- on 31 October 2017, changed interest rates on the rendimax savings account and the contomax current account—whose average cost for the year amounted to 1,55%, including stamp duty costs borne by Banca IFIS—as well as announced that, as far as retail funding is concerned, effective 1 January 2018 customers will be responsible for stamp duty costs for both the rendimax savings account and the contomax current account;
- optimised the costs of the securitisation transactions launched for the acquisition of the former GE Capital Interbanca Group, winding some of them down;
- optimised the management of excess liquidity by making short/medium-term investments to mitigate the impact of negative interest rates on deposits with the Bank of Italy;
- participated in the ECB's last TLTRO auction in March 2017, borrowing 700 million Euro. Considering the outlook for loans, the cost of the TLTRO is estimated at -0,40% over 4 years.

NET BANKING INCOME (in thousands of Euro)	YEAR		CHANGE	
	31.12.2017	31.12.2016 RESTATED	ABSOLUTE	%
Net interest income	442.451	268.183	174.268	65,0%
Net commission income	73.765	41.111	32.654	79,4%
Dividends and similar income	48	-	48	n.a.
Net result from trading	11.249	(702)	11.951	(1.702,4)%
Profit (loss) from sale or buyback of receivables	19.016	44.529	(25.513)	(57,3)%
Profit from sale or buyback of financial assets	6.579	5.478	1.101	20,1%
Net banking income	**553.108**	**358.599**	**194.509**	**54,2%**

Net interest income rose from 268,2 million Euro at 31 December 2016 to 442,5 million Euro at 31 December 2017 (+65,0%).
Net commission income totalled 73,8 million Euro, up 79,4% from 31 December 2016.
Commission income, totalling 86,9 million Euro (compared to 59,4 million Euro at 31 December 2016), 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, as well as from other fees usually charged to customers for services.
Commission expense, totalling 13,1 million Euro compared to 18,3 million Euro in the prior-year period, largely referred to fees paid to banks and financial intermediaries such as management fees, fees paid to third parties for the distribution of leasing products, as well as brokerage operations carried out by approved banks and other credit brokers. Please note that the result at 31 December 2016 included significant up-front commissions for the factoring, leasing and lending securitisations carried out in the fourth quarter of 2016.
The Bank reported an 11,2 million Euro **profit from trading**, compared to a 0,7 million Euro loss at 31 December 2016, thanks to the settlement of a dispute concerning the exit of the merged entity Interbanca from the investment in a technology company: in August 2017, the shares were transferred to the majority shareholder.
The **gain on the sale of receivables**, totalling 19,0 million Euro (-57,3% from 44,5 million Euro in 2016), arose from the sale of a number of portfolios of receivables of the NPL Area.
The Group reported a 6,6 million Euro **gain on the sale of financial assets**, up 20,1% from 5,5 million Euro at 31 December 2016, resulting from the sale of government and bank bonds carried out in the fourth quarter of 2017.

Formation of net profit from financial activities

The Group's **net profit from financial activities** totalled 504,8 million Euro, compared to 299,4 million Euro at 31 December 2016 (+68,6%).

FORMATION OF NET PROFIT FROM FINANCIAL ACTIVITIES (in thousands of Euro)	YEAR		CHANGE	
	31.12.2017	31.12.2016 RESTATED	ABSOLUTE	%
Net banking income	**553.108**	**358.599**	**194.509**	**54,2%**
Net impairment losses on:	(48.281)	(59.233)	10.952	(18,5)%
loans and receivables	(51.845)	(54.882)	3.037	(5,5)%
available for sale financial assets	(2.041)	(4.356)	2.315	(53,1)%
other financial transactions	5.605	5	5.600	n.s.
Net profit (loss) from financial activities	**504.827**	**299.366**	**205.461**	**68,6%**

Net impairment losses on receivables totalled 51,8 million Euro (compared to 54,9 million Euro at 31 December 2016, -5,5%). 33,6 million Euro referred to Trade Receivables, 33,5 million Euro to the NPL Area, 8,0 million Euro to the Leasing sector, and 0,3 million Euro to Tax Receivables; meanwhile, the Corporate Banking segment reported 23,3 million Euro in net reversals of impairment losses on receivables deriving specifically from some individually significant positions; similarly, the Governance and Services segment reported 0,3 million Euro in net reversals of impairment losses.

Impairment losses in the NPL Area referred to positions for which trigger events occurred, causing the position to become impaired under the adopted measurement model and the relevant accounting policy.

Net impairment losses on available for sale financial assets, totalling 2,0 million Euro (4,4 million Euro at 31 December 2016), referred to impairment losses recognised on unlisted instruments that were found to be impaired.

The Bank recognised 5,6 million Euro in **reversals of impairment losses on other financial transactions**, with 3,3 million Euro referring to the impact of the breakdown of the difference between the fair value of unfunded commitments as measured in the business combination and their carrying amount recognised by the subsidiaries. The remainder referred to the reversal of a liability for guarantees following a successful debt restructuring.

Formation of profit for the year

FORMATION OF PROFIT FOR THE YEAR (in thousands of Euro)	YEAR		CHANGE	
	31.12.2017	31.12.2016 RESTATED	ABSOLUTE	%
Net profit (loss) from financial activities	**504.827**	**299.366**	**205.461**	**68,6%**
Operating costs	(256.284)	430.929	(687.213)	(159,5)%
Profit (Loss) from sales of investments	32	-	32	n.a.
Pre-tax profit from continuing operations	**248.575**	**730.295**	**(481.720)**	**(66,0)%**
Income tax expense	(67.808)	(32.541)	(35.267)	108,4%
Net profit for the year	**180.767**	**697.754**	**(516.987)**	**(74,1)%**
Net profit attributable to non-controlling interests	-	40	(40)	(100,0)%
Net profit attributable to the Parent	**180.767**	**697.714**	**(516.947)**	**(74,1)%**

The cost/income ratio totalled 46,3%, essentially in line with 47,2% (normalised amount) at 31 December 2016.

OPERATING COSTS (in thousands of Euro)	YEAR		CHANGE	
	31.12.2017	31.12.2016 RESTATED	ABSOLUTE	%
Personnel expenses	98.251	65.878	32.373	49,1%
Other administrative expenses	152.620	126.276	26.344	20,9%
Allocations to provisions for risks and charges	5.532	1.849	3.683	199,2%
Net impairment losses/reversals on property, plant and equipment and intangible assets	11.452	6.055	5.397	89,1%
Other operating charges (income)	(11.571)	(630.987)	619.416	(98,2)%
Total operating costs	**256.284**	**(430.929)**	**687.213**	**(159,5)%**

At 98,3 million Euro, **personnel expenses** rose 49,1% (65,9 million Euro in December2016). At the end of 2017, the Group's employees numbered 1.470, rising 11,1% from 1.323 at 31 December 2016. The average number of employees, which is more representative of the trend observed in the two periods, increased by 57,8%.

Other administrative expenses totalled 152,6 million Euro, up 20,9% from 126,3 million Euro in the prior-year period—largely because of software licensing and support costs. In looking at the increase in total costs, one should account for the consolidation of the former GE Capital Interbanca Group over the 12 months.

OTHER ADMINISTRATIVE EXPENSES (in thousands of Euro)	YEAR		CHANGE	
	31.12.2017	31.12.2016 RESTATED	ABSOLUTE	%
Expenses for professional services	**48.001**	**56.995**	**(8.994)**	**(15,8)%**
Legal and consulting services	30.085	25.511	4.574	17,9%
Auditing	453	428	25	5,8%
Outsourced services	17.463	31.056	(13.593)	(43,8)%
Direct and indirect taxes	**27.422**	**14.882**	**12.540**	**84,3%**
Expenses for purchasing goods and other services	**77.197**	**54.399**	**22.798**	**41,9%**
Software licensing and support	20.220	5.550	14.670	264,3%
Customer information	12.876	11.376	1.500	13,2%
FITD and Resolution fund	8.753	9.561	(808)	(8,5)%
Postage and archiving of documents	7.326	5.254	2.072	39,4%
Property expenses	6.245	4.667	1.578	33,8%
Transitional services agreement	3.373	487	2.886	592,6%
Car fleet management and maintenance	3.314	2.407	907	37,7%
Advertising and inserts	3.061	3.769	(708)	(18,8)%
Telephone and data transmission expenses	2.840	1.923	917	47,7%
Employee travel	2.410	1.665	745	44,7%
Securitisation costs	2.211	3.335	(1.124)	(33,7)%
External business trips and transfers	1.070	425	645	151,8%
Other sundry expenses	3.498	3.980	(482)	(12,1)%
Total administrative expenses	**152.620**	**126.276**	**26.344**	**20,9%**

Legal and consulting expenses were up compared to the previous year because of the increase in costs associated with the rationalisation of the Group's IT systems as well as expenses related to the judicial collection actions for the NPL Area's receivables, only partially offset by the decrease in costs for the acquisition of the former GE Capital Interbanca Group.

The line item "**Outsourced services**" was down from the previous year largely because the NPL Area scaled down non-judicial debt collection operations in favour of judicial debt collection operations.

The line item "**Direct and indirect taxes**" included 9,9 million Euro (+30,3% compared to 31 December 2016) in stamp duty costs for retail funding, which the Bank continued bearing until 31 December 2017. In addition, the line item rose compared to 2016 because of the registration fees paid for the expanded judicial debt collection operations of the NPL Area.

The rise in **software licensing and support costs** was closely related to the implementation of the Group's new IT systems.

The line item **Transitional services agreement** concerns the costs incurred during the merger of the former GE Capital Interbanca Group for the use of IT networks and services owned by the seller. Said agreement ended in 2017.

Net allocations to provisions for risks and charges totalled 5,5 million Euro (compared to 1,8 million Euro in December 2016), and were specifically related to legal disputes referring to the trade receivables segment.

Other net operating income totalled 11,6 million Euro (2,4 million Euro in net expenses at 31 December 2016 net of the 633,4 million Euro gain on bargain purchase) and referred mainly to revenue from the recovery of expenses charged to third parties. The relevant cost item is included in other administrative expenses. The 2016 result had been negatively affected by the 2,8 million Euro loss from a lawsuit as well as 1,5 million Euro in early termination penalties.

Pre-tax profit for the year totalled 248,6 million Euro, compared to 730,3 million Euro (restated amount) at 31 December 2016.

Income tax expense amounted to 67,8 million Euro, compared to 32,5 million Euro at 31 December 2016.

The Group's tax rate for 2017 was 27,28%.

This is not comparable with the tax rate for the previous year (4,5%), as in 2016 the non-recurring gain on bargain purchase had been recognised only through consolidated profit or loss without any tax impact.

At 31 December 2017, **consolidated net profit for the year** totalled 180,8 million Euro, compared to 697,7 million Euro (restated amount) at 31 December 2016. The acquisition of the former Interbanca Group had a significant impact (633,4 million Euro) on the result for the previous year.

(in thousands of Euro)	YEAR 2017		YEAR 2016 RESTATED	
	EQUITY:	OF WHICH PROFIT FOR THE YEAR	EQUITY:	OF WHICH PROFIT FOR THE YEAR
Parent company balance	1.337.294	154.906	596.975	71.722
Difference compared to the carrying amounts of the companies consolidated line by line	31.425	25.861	631.577	625.992
- IFIS Finance Sp. Zo.o.	*9.372*	*876*	*6.645*	*1.772*
- former GE Capital Interbanca Group	*21.305*	*24.237*	*624.932*	*624.220*
- Two Solar Park 2008 S.r.l.	*748*	*748*	*n.a.*	*n.a.*
Group consolidated balance	**1.368.719**	**180.767**	**1.228.552**	**697.714**

Main risks and uncertainties

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

Reference should be made to section E of the Notes to the Consolidated Financial Statements for further information on the Banca IFIS Group's risks.

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 stockmarket) of Borsa Italiana S.p.A.. Previously, as from 1990, the shares had been listed on the Mercato Ristretto (MR, a market for unlisted securities) of Borsa Italiana. The following table shows the share prices at the end of the year. As from 18 June 2012, Banca IFIS joined the Ftse Italia Mid Cap index.

Official share price	31.12. 2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Share price at period-end	40,77	26,00	28,83	13,69	12,95

Price/book value

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

Price/book value	31.12. 2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Share price at period-end	40,77	26,00	28,83	13,69	12,95
Consolidated Equity per share	25,62	22,99	10,81	8,27	7,21
Price/book value	**1,59**	**1,13**	**2,67**	**1,65**	**1,80**

Outstanding shares	31.12. 2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Number of shares outstanding at period end (in thousands)(1)	53.443	53.431	53.431	52.924	52.728

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

Earnings per share and Price/Earnings

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

Earnings per share (EPS)	31.12.2017	31.12.2016 RESTATED
Consolidated net profit for the year (in thousands of Euro)	180.767	697.714
Consolidated earnings per share	**3,38**	**13,13**

Earnings per share and diluted earnings per share	31.12.2017	31.12.2016 RESTATED
Consolidated net profit for the year (in thousands of Euro)	**180.767**	**697.714**
Average number of outstanding shares	53.431.314	53.153.178
Average number of potentially diluted shares	6.145	9.635
Average number of diluted shares	53.425.169	53.143.543
Consolidated earnings per share for the year (Units of Euro)	**3,38**	**13,13**
Consolidated diluted earnings per share for the year (Units of Euro)	**3,38**	**13,13**

Payout ratio

For 2017, the Board of Directors proposed to the Shareholders' Meeting to distribute a dividend of 1 Euro per share.

Payout ratio (in thousands of Euro)	2017	2016 RESTATED	2015	2014	2013
Consolidated net profit for the year	180.767	687.945	161.966	95.876	84.841
Parent company dividends	53.433 (1)	43.813	40.334	34.930	30.055
Payout ratio	**29,6%**	**6,3%**	**24,9%**	**36,4%**	**35,4%**

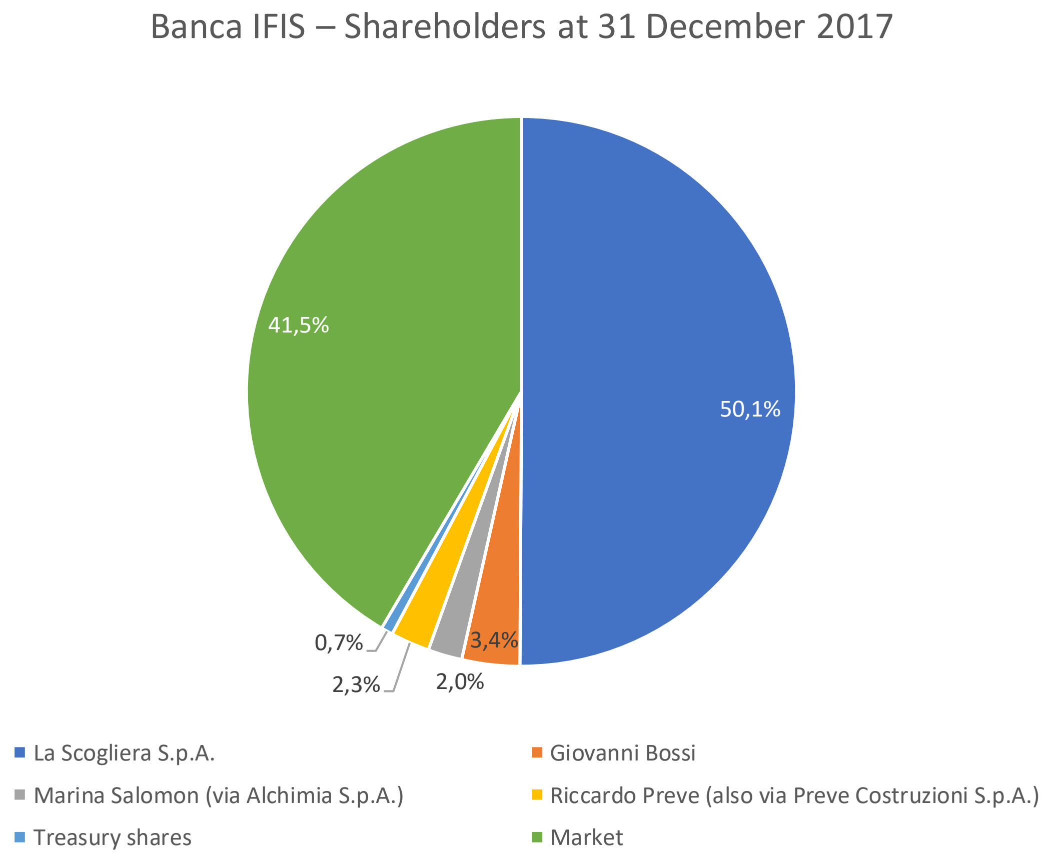
(1) Dividend proposed by the Board of Directors

The 2016 payout was influenced by the gain on bargain purchase deriving from the acquisition of the former GE Capital Interbanca Group. After normalising the profit for the year for the impact of the acquisition, the payout ratio would have stood at 48,8%. Consistently with the Bank's desire to further strengthen its capital base, an amount corresponding to the bargain purchase gain from the acquisition of the former GE Capital Interbanca Group will be established as non-available reserve until approval of the financial statements for the year 2021.

Shareholders

The share capital of the Parent Company at 31 December 2017 amounted to 53.811.095 Euro and is broken down into 53.811.095 shares with a par value of 1 Euro each.

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



Corporate governance rules

Banca IFIS has adopted the Corporate Governance Code for listed companies.

A Control and Risks Committee, an Appointments Committee, and a Remuneration Committee have been set up within the Bank's Board of Directors, which has also appointed a Supervisory Board with independent powers of action and control as per Italian Legislative Decree 231/2001.

Internal dealing rules

Banca IFIS updated its internal dealing rules to bring them into line with the relevant EU legislation (Regulation (EU) No 596/2014, known as 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 the so-called "Closely Associated Persons";
- the handling of information concerning the Transactions that the Relevant Persons submitted to the Bank;
- the handling of the so-called "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.

List of Insiders

Banca IFIS updated its internal procedures for handling corporate information and the list of individuals who have access to inside information, bringing them into line with the mentioned Market Abuse Regulation.

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

In addition, it adopted a corporate information handling policy that governs:

- the identification, internal handling, and public disclosure of inside information;
- the internal handling and public disclosure of all Corporate Information other than inside information.

In addition, it establishes the duties and responsibilities of the Bank's representatives in the context of the meetings with the financial community.

Significant events occurred during the year

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

Here below is a summary of the most significant events occurred during the period and before the approval of this document:

Issuer rating assignment

On 28 September 2017, Banca IFIS received a 'BB+ outlook stable' rating from Fitch. This testifies to the Bank's robust position in the market and the soundness of its growth and development project.

5 billion Euro EMTN programme approved

On 20 July 2017, the Board of Directors of Banca IFIS approved to set up the "EMTN – European Medium Term Notes Programme", with an overall issue limit of 5 billion Euro. This programme was signed on 29 September 2017.

Subordinated Tier 2 bond

In early October 2017, Banca IFIS successfully completed its first Tier 2 bond issue. The 400 million Euro bond has a 10-year maturity and is callable after 5 years. The coupon rate is 4,5%. The bond, reserved for institutional investors except for those in the United States, was issued under Banca IFIS S.p.A.'s EMTN Programme and will be listed on the Irish Stock Exchange. The bond received a 'BB' rating from Fitch.

Mergers of IFIS Factoring and Interbanca into Banca IFIS

After the merger of IFIS Factoring was completed in August 2017, on 23 October 2017 Interbanca S.p.A. was merged into Banca IFIS.

Agreement to acquire Cap.Ital.Fin S.p.A.

In late November 2017, Banca IFIS finalised a binding offer to acquire control of Cap.Ital.Fin S.p.A., a company operating across in Italy and specialising in salary-backed loans and salary or pension deductions for retirees as well as private- and public-sector and government employees.

IFIS NPL

In December 2017, Banca IFIS announced the creation of IFIS NPL, the Banca IFIS company into which it will spin off the NPL Area.

Significant subsequent events

Acquisition of control of Cap.Ital.Fin S.p.A.

Concerning the binding offer to acquire control of Cap.Ital.Fin S.p.A. submitted on 24 November 2017, after obtaining the necessary authorisations, on 2 February 2018 the Bank finalised the acquisition of 100% of Cap.Ital.Fin S.p.A., a company operating across Italy and specialising in salary-backed loans and salary or pension deductions for retirees as well as private- and public-sector and government employees.

Binding agreements to acquire Credifarma S.p.A.

In January 2018, the Group entered into binding agreements with Federfarma, Unicredit and BNL – BNP Paribas Group to acquire a controlling interest in Credifarma S.p.A.. Under the deal, which will bring Credifarma S.p.A. into the Banca IFIS Group's scope, the Group will enter into a multi-year strategic partnership with Federfarma to promote Credifarma's role in supporting Federfarma's member as well as Italy's pharmacy market. The acquisition is subject to the approval of the Bank of Italy and is expected to close in the summer of 2018.

Reverse merger

On 8 February 2018, after approving the 2017 preliminary results, the Board of Directors of Banca IFIS formally launched the reverse merger of La Scogliera S.p.A. into Banca IFIS S.p.A.. As part of the transaction, the owners of La Scogliera S.p.A. will receive the Banca IFIS S.p.A. shares directly owned by La Scogliera, thus avoiding the need to carry out a capital increase. The CET1 ratio of the Banking Group following the reverse merger with the holding company La Scogliera, which could be finalised by 30 June 2018, will amount to 15,64% (applying the rules for calculating prudential capital ratios to the preliminary results at 31 December 2017 on a proforma basis). Under the same assumption, the Total Capital Ratio will amount to 21,07%.

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

Outlook

The improved growth outlook for 2018 is cause for optimism for all advanced economies. The expansionary policies pursued in Europe (and elsewhere) for years now—injecting massive amounts of liquidity with the main goal of controlling inflation—have indirectly boosted GDP growth. The US has adopted policies more focused on supporting growth and the domestic economy. Time will tell what effect this will have, but the risk of currency wars and setbacks to global trade in the name of defending domestic production has become immediately clear. In Europe, Britain's exit from the European Union will continue to be a focus of discussion, but the expected economic impact for the EU will be minimum. The instability (including political) induced by the inadequate answers to the demands that voters still put to the EU pose more significant risks— and the gradual wind-down of the Eurosystem's liquidity support to the financial system will complicate matters further. The ability to reconcile a moderate and gradual contraction in liquidity with an equally moderate and gradual rise in interest rates while remaining on a sustainable growth path will be key to successfully exiting the crisis that started ten years ago.

The entire Banca IFIS Group will pursue a series of non-recurring restructuring and growth initiatives.

The first step will be the merger of IFIS Leasing into Banca IFIS in the first half of the current year. This will be preceded by the launch of the new leasing ERP system, whose replacement had been planned since the acquisition closed in late 2016. The merger of IFIS Leasing marks the end of the integration of the acquired Interbanca Group, which took approximately 18 months.

Special emphasis will be placed on integrating salary-backed lending operations, which became part of the Group's scope in February 2018.

The Group will step up its growth efforts in the pharmacy segment. The agreement to acquire control of Credifarma S.p.a., which provides financial support to retail distributors of drugs and related products, will be tentatively finalised in the first half of the year.

The establishment of IFIS Npl S.p.a. in late 2017 stems from the need to spin off all operations of Banca IFIS's current NPL Area into the new entity, which has applied to join the register of non-banking Financial Intermediaries pursuant to Article 106 of the Consolidated Law on Banking. IFIS NPL will allow the Banking Group to continue growing in the market for acquiring and managing non-performing loans, also by expanding into new segments or areas where the Group currently has no or little presence, creating value by improving the management of non-performing portfolios and acting as a systemically important Italian private Asset Management Company open to partnerships and integrations.

Finally, the Group's governing bodies will decide on the streamlining of the corporate structure through the reverse merger of the parent La Scogliera S.p.A. into Banca IFIS. The goal is to prevent the significant proportion of minority interests in the Group, which is headed by La Scogliera S.p.A., from negatively affecting regulatory capital ratios. Under the deal, shareholders in La Scogliera S.p.A. will essentially receive the Banca IFIS shares currently held by La Scogliera.

Despite the encouraging GDP growth figures, it does not appear possible to grow our way out of the last few years of economic crisis in a steady and, most importantly, sustainable manner without restarting the flow of credit to the real economy. Against this backdrop, the Banca IFIS Group's ability to provide support to small- and medium-sized businesses, also thanks to strengthening capital adequacy ratios and increasing liquidity, continues representing a competitive advantage, enabling it to acquire new customers—also with the new scope following the acquisition of the former Interbanca Group as well as the restructuring initiatives and acquisitions already completed or currently underway. The market is still characterised by the limited and selective supply of credit, and the demand for appropriate solutions—especially for companies that are small in size and have less measurable or low credit standing.

Demand for lending is projected to grow across all products, in line with GDP growth estimates and the expected rebound in consumer confidence—which is driven in turn by rising employment. Expectations are for an end to interest rate cuts and, in some cases, a reversal—albeit moderate—of this trend.

The market for non-performing loans seems to have matured: after the disposal of massive amounts of gross non-performing exposures in 2017, sales are likely to continue at a steady pace. Notably, it appears that portfolios are selling at higher prices and that the quality of the documentation has improved sharply, as banks and originators are now aware of the importance of correctly managing information to negotiate the best possible price. The market is gradually becoming less focused exclusively on sales and turning into a servicing industry. In this sense, only the best-structured players will be able to achieve strong results, and we will likely see further concentration in the medium term.

As for funding, the Bank expects retail funding costs to decline as a result of the actions taken in late 2017. Concerning wholesale funding, the extremely low interest rates in the funding market remain available to banks only if they have prime collateral. Alternatively, wholesale funding has and will have costs broadly similar to retail funding, but the latter's stability is more consistent with the profile of the Bank's loans. That said, following the transactions successfully carried out in May and October, the Bank will operate in the wholesale market as part of its EMTN programme. In addition, the Group continues monetising its assets through the securitisations finalised in late 2016, which are still being optimised.

As for the government bond portfolio, the Bank is not planning any significant changes.

In line with the recently implemented changes and strategies that put the digital transformation at the centre of the Bank's growth plans, special emphasis will be placed on investments in technologies and human resources to support these efforts. The Bank recognises the importance of applying technological improvement to both processes, which must become as efficient as possible, and the relationships with its customers.

As usual, the Bank will carefully consider potential inorganic growth opportunities in sectors of interest should these be consistent with its strategy, present highly controllable risks—taking also the management structure into account—and be technologically easy to integrate as well as economically expedient.

In light of the above, the Group can reasonably expect to remain profitable also in 2018.

Other information

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

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

Report on Corporate Governance and Shareholding Structure

Pursuant to article 123 bis, paragraph three, of Italian Legislative Decree no. 58 of 24 February 1998 (the Consolidated Law on Banking), a report, separate from this Directors' report, was prepared. It was approved by the Board of Directors and published together with the draft financial statements at 31 December 2017. Furthermore, this document is available on Banca IFIS's website, www.bancaifis.com, in the 'Corporate Governance' Section.

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

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

Non-Financial Statement

Pursuant to Article 5, paragraph 3 of Italian Legislative Decree no. 254 of 30 December 2016 (the Consolidated Law on Banking), the consolidated non-financial statement represents a report separate from this document. It is approved by the Board of Directors and published together with the Draft Consolidated Financial Statements at 31 December 2017. Furthermore, this document is available on Banca IFIS's website, www.bancaifis.com, in the 'Corporate Governance' Section.

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

Privacy measures

In compliance with article 34, paragraph 1, letter g) of Italian Legislative Decree no. 196 of 30 June 2003 (the Personal Data Protection Code), the group periodically updates its 'Security Policy Document' setting out the measures taken to guarantee the protection of processed personal data.

Parent Company management and coordination

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

National consolidated tax regime

Banca IFIS Spa, IFIS Leasing S.p.A, and IFIS Rental Services S.r.l., together with the parent company La Scogliera S.p.A., opted for the application of group taxation (tax consolidation) in accordance with arts. 117 et seq. of Italian Presidential Decree 917/86.
Transactions between these companies were regulated by means of a private written agreement between the parties signed in April 2016 and September 2017. This agreement will lapse after three years.
All these 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, Banca IFIS and IFIS Rental Services S.r.l. transferred their tax losses to La Scogliera S.p.A., recognising a 54,1 million Euro net receivable due from the parent at 31 December 2017.

Transactions on treasury shares

At 31 December 2016, the bank held 380.151 treasury shares recognised at a market value of 3,2 million Euro and a par value of 380.151 Euro.
During 2017 Banca IFIS made the following transactions on treasury shares:

- granted a former employee 862 treasury shares with a market value of 40 thousand Euro and a par value of 862 Euro, making profits of 32 thousand Euro that, in compliance with IASs/IFRSs, were recognised under the capital reserve;
- gave 1.460 treasury shares with a market value of 49 thousand Euro and a par value of 1.460 Euro to the minority shareholders of the merged entity Interbanca S.p.A. as part of a stock swap, making profits of 37 thousand Euro that, in compliance with IASs/IFRSs, were recognised under the capital reserve.

The remaining balance at the end of the year was 377.829 treasury shares with a market value of 3,2 million Euro and a par value of 377.829 Euro.

Related-party transactions

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

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

During 2017, no significant transactions with related parties were undertaken.

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

Atypical or unusual transactions

During 2017, the Banca IFIS Group did not carry out atypical or unusual transactions as defined by Consob Communication no. 6064293 of 28 July 2006.

Research and development activities

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

Venice - Mestre, 6 March 2018

For the Board of Directors

The Chairman

Sebastien Egon Fürstenberg

The C.E.O.

Giovanni Bossi

Consolidated Financial Statements

Consolidated Statement of Financial Position

	Assets (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED	31.12.2016
10.	Cash and cash equivalents	50	34	34
20.	Financial assets held for trading	35.614	47.393	47.393
40.	Available for sale financial assets	456.549	374.229	374.229
60.	Due from banks	1.777.876	1.393.358	1.393.358
70.	Loans to customers	6.435.806	5.928.212	5.928.212
120.	Property, plant and equipment	127.881	110.348	110.348
130.	Intangible assets	24.483	14.981	14.981
	of which:			
	- goodwill	*834*	*799*	*799*
140.	Tax assets	438.623	581.016	581.016
	a) current	71.309	87.836	87.836
	b) deferred	367.314	493.180	493.180
	of which as per Italian law 214/2011	*214.656*	*191.417*	*191.417*
160.	Other assets	272.977	259.343	249.574
	Total assets	**9.569.859**	**8.708.914**	**8.699.145**

	Liabilities and equity (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED	31.12.2016
10.	Due to banks	791.977	503.964	503.964
20.	Due to customers	5.293.188	5.045.136	5.045.136
30	Debt securities issued	1.639.994	1.488.556	1.488.556
40.	Financial liabilities held for trading	38.171	48.478	48.478
80.	Tax liabilities	40.076	24.925	24.925
	a) current	1.477	491	491
	b) deferred	38.599	24.434	24.434
100.	Other liabilities	368.543	337.325	337.325
110.	Post-employment benefits	7.550	7.660	7.660
120.	Provisions for risks and charges	21.641	24.318	24.318
	b) other reserves	21.641	24.318	24.318
140.	Valuation reserves	(2.710)	(5.445)	(5.445)
170.	Reserves	1.038.155	383.835	383.835
180.	Share premiums	101.864	101.776	101.776
190.	Share capital	53.811	53.811	53.811
200.	Treasury shares (-)	(3.168)	(3.187)	(3.187)
210	Equity attributable to non-controlling interests (+ / -)	-	48	48
220.	Profit (loss) for the year (+ / -)	180.767	697.714	687.945
	Total liabilities and equity	**9.569.859**	**8.708.914**	**8.699.145**

Consolidated Income Statement

	Items (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED	31.12.2016
10.	Interest receivable and similar income	549.499	325.438	325.438
20.	Interest due and similar expenses	(107.048)	(57.255)	(57.255)
30.	**Net interest income**	**442.451**	**268.183**	**268.183**
40.	Commission income	86.897	59.406	59.406
50.	Commission expense	(13.132)	(18.295)	(18.295)
60.	**Net commission income**	**73.765**	**41.111**	**41.111**
70.	Dividends and similar income	48	-	-
80.	Net result from trading	11.249	(702)	(702)
100.	Gain (loss) on sale or buyback of:	25.595	50.007	50.007
	a) loans and receivables	19.016	44.529	44.529
	b) available for sale financial assets	6.579	5.478	5.478
120.	**Net banking income**	**553.108**	**358.599**	**358.599**
130.	Net impairment losses/reversal on	(48.281)	(59.233)	(59.233)
	a) loans and receivables	(51.845)	(54.882)	(54.882)
	b) available for sale financial assets	(2.041)	(4.356)	(4.356)
	d) other financial transactions	5.605	5	5
140.	**Net profit (loss) from financial activities**	**504.827**	**299.366**	**299.366**
180.	Administrative expenses:	(250.871)	(192.154)	(192.154)
	a) personnel expenses	(98.251)	(65.878)	(65.878)
	b) other administrative expenses	(152.620)	(126.276)	(126.276)
190.	Net allocations to provisions for risks and charges	(5.532)	(1.849)	(1.849)
200.	Net impairment losses/Reversal on property, plant and equipment	(4.563)	(2.485)	(2.485)
210.	Net impairment losses/Reversal on intangible assets	(6.889)	(3.570)	(3.570)
220.	Other operating income/expenses	11.571	630.987	621.218
230.	**Operating costs**	**(256.284)**	**430.929**	**421.160**
270.	Profit (Loss) from sales of investments	32	-	-
280.	**Pre-tax profit (loss) for the year from continuing operations**	**248.575**	**730.295**	**720.526**
290.	Income taxes for the year relating to continuing operations	(67.808)	(32.541)	(32.541)
320	**Profit (loss) for the year**	**180.767**	**697.754**	**687.985**
330	Profit (loss) for the year attributable to non-controlling interests	-	40	40
340.	**Profit (loss) for the year attributable to the Parent**	**180.767**	**697.714**	**687.945**

Consolidated Statement of Comprehensive Income

Items (in thousands of Euro)		31.12.2017	31.12.2016 RESTATED	31.12.2016
10.	**Profit (loss) for the year**	**180.767**	**697.714**	**687.985**
	Other comprehensive income, net of taxes, not to be reclassified to profit or loss	**143**	**44**	**44**
20.	Property, plant and equipment	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	143	44	44
50.	Non-current assets under disposal	-	-	-
60.	Share of valuation reserves of equity accounted investments	-	-	-
	Other comprehensive income, net of taxes, to be reclassified to profit or loss	**2.592**	**(11.228)**	**(11.228)**
70.	Foreign investment hedges	-	-	-
80.	Exchange differences	1.851	(1.085)	(1.085)
90.	Cash flow hedges	-	-	-
100.	Available for sale financial assets	741	(10.143)	(10.143)
110.	Non-current assets under disposal	-	-	-
120.	Share of valuation reserves of equity accounted investments	-	-	-
130.	**Total other comprehensive income, net of taxes**	**2.735**	**(11.184)**	**(11.184)**
140.	**Total comprehensive income (Item 10+130)**	**183.502**	**686.530**	**676.801**
150.	Total consolidated comprehensive income attributable to non-controlling interests	-	(40)	(40)
160.	**Total consolidated comprehensive income attributable to the parent**	**183.502**	**686.490**	**676.761**

Statement of Changes in Consolidated Equity at 31 December 2017

	Balance at 31/12/2016	Change in opening balances	Balance at 01/01/2017	Allocation of profit from previous year		Changes occurred during the year									Equity at 31/12/2017	Equity attributable to non-controlling interests at 31/12/2017
							Equity transactions									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Buyback of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity interests	Comprehensive income for the year 2017		
Share capital:																
a) ordinary shares	53.811	-	53.811	-	-	-	-	-	-	-	-	-	-	-	**53.811**	-
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Share premiums	101.776	-	101.776	-	-	-	88	-	-	-	-	-	-	-	**101.864**	
Reserves:																-
a) retained earnings	378.402	-	378.402	653.901	-	438	-	-	-	-	-	-	-	-	**1.032.741**	-
b) other	5.433	-	5.433	-	-	-	(19)	-	-	-	-	-	-	-	**5.414**	-
Valuation reserves:	(5.445)	-	(5.445)	-	-	-	-	-	-	-	-	-	-	2.735	**(2.710)**	
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Treasury shares	(3.187)	-	(3.187)	-	-	-	19	-	-	-	-	-	-	-	**(3.168)**	-
Profit (loss) for the period	687.945	9.769	697.714	(653.901)	(43.813)	-	-	-	-	-	-	-	-	180.767	**180.767**	-
Equity	**1.218.735**	**9.769**	**1.228.504**	**-**	**(43.813)**	**438**	**88**	**-**	**-**	**-**	**-**	**-**	**-**	**183.502**	**1.368.719**	**-**
Equity attributable to non-controlling interests	**48**	**-**	**48**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**(48)**	**-**	**-**	**-**

BANCA IFIS

Statement of Changes in Consolidated Equity at 31 December 2016

	Balance at 31/12/2015	Change in opening balances	Balance at 1/1/2016	Allocation of profit from previous year		Changes occurred during the year									Equity at 31/12/2016	Equity attributable to non-controlling interests at 31/12/2016
							Equity transactions									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Buyback of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity interests	Comprehensive income for the year 2016		
Share capital:																
a) ordinary shares	53.811	-	53.811	-	-	-	-	-	-	-	-	-	-	-	**53.811**	-
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Share premiums	58.900	-	58.900	-	-	36.813	6.063	-	-	-	-	-	-	-	**101.776**	
Reserves:																-
a) retained earnings	256.778	-	256.778	121.624	-	-	-	-	-	-	-	-	-	-	**378.402**	-
b) other	42.078	-	42.078	-	-	(36.645)	-	-	-	-	-	-	-	-	**5.433**	8
Valuation reserves:	5.739	-	5.739	-	-	-	-	-	-	-	-	-	-	(11.184)	**(5.445)**	
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Treasury shares	(5.805)	-	(5.805)	-	-	-	2.618	-	-	-	-	-	-	-	**(3.187)**	-
Profit (loss) for the period	161.966	-	161.966	(121.624)	(40.342)	-	-	-	-	-	-	-	-	687.945	**687.945**	40
Equity	**573.467**	**-**	**573.467**	**-**	**(40.342)**	**168**	**8.681**	**-**	**-**	**-**	**-**	**-**	**-**	**676.761**	**1.218.735**	**-**
Equity attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**8**	**40**	**-**	**48**

Consolidated Cash Flow Statement

Indirect method (in thousands of Euro)	31.12.2017	31.12.2016 RESTATED	31.12.2016
A. OPERATING ACTIVITIES			
1. Operations	**290.211**	**197.181**	**197.181**
- profit(loss) for the year (+/-)	180.767	697.714	687.945
- profit/loss on financial assets held for trading and on financial assets/liabilities at fair value (-/+)	(16.307)	818	818
- profit/loss on hedging activities	-	-	-
- net impairment losses/reversal on loans (+/-)	48.281	59.477	59.477
- net imp. losses/reversal on property, plant, and equipment and intangible assets (+/-)	11.452	6.055	6.055
- net allocations to provisions for risks and charges and other expenses/income (+/-)	5.552	22.232	22.232
- unpaid taxes (+)	60.510	32.541	32.541
- other adjustments (+/-)	(44)	(621.656)	(611.887)
2. Cash flows generated/absorbed by financial assets	**(901.600)**	**1.560.328**	**1.570.097**
- Financial assets held for trading	28.086	2.330	2.330
- financial assets at fair value	-	-	-
- available for sale financial assets	(89.675)	2.888.691	2.888.691
- due from banks on demand	(69.621)	(37.401)	(37.401)
- other due from banks	(314.897)	(1.019.712)	(1.019.712)
- loans to customers	(559.439)	(163.170)	(163.170)
- other assets	103.946	(110.410)	(100.641)
3. Cash flows generated/absorbed by financial liabilities	**693.124**	**(1.592.051)**	**(1.592.051)**
- due to banks on demand	(65.254)	60.945	60.945
- other due to banks	353.267	(2.059.231)	(2.059.231)
- due to customers	239.843	(978.006)	(978.006)
- outstanding securities	144.218	1.404.408	1.404.408
- financial liabilities held for trading	(10.307)	(2.459)	(2.459)
- financial liabilities at fair value	-	-	-
- other liabilities	31.357	(17.708)	(17.708)
Net cash flows generated/absorbed by operating activities A (+/-)	**81.735**	**165.458**	**175.227**
B. INVESTING ACTIVITIES			
1. Cash flows generated by:	**36**	**158**	**158**
- sale of equity investments	-	-	-
- dividends collected on equity investments	-	-	-
- sale of held to maturity financial assets	-	-	-
- sale of property, plant and equipment	36	158	158
- sale of intangible assets	-	-	-
- sale of business branches	-	-	-
2. Cash flows absorbed by:	**(38.487)**	**(134.123)**	**(143.892)**
- purchase of investments	-	(109.433)	(119.202)
- purchase of held to maturity financial assets	-	-	-
- purchase of property, plant and equipment	(22.096)	(14.421)	(14.421)
- purchase of intangible assets	(16.391)	(10.269)	(10.269)
- purchase of business branches	-	-	-
Net cash flows generated/absorbed by investing activities B (+/-)	**(38.451)**	**(133.965)**	**(143.734)**
C. FINANCING ACTIVITIES			
- issue/buyback of treasury shares	107	8.681	8.681
- issue/buyback of equity instruments	438	167	167
- distribution of dividends and other	(43.813)	(40.341)	(40.341)
Net cash generated from/used in financing activities C (+/-)	**(43.268)**	**(31.493)**	**(31.493)**
NET CASH FLOWS GENERATED /ABSORBED DURING THE YEAR D=A+/-B+/-C	**16**	**-**	**-**
RECONCILIATION			
OPENING CASH AND CASH EQUIVALENTS E	**34**	**34**	**34**
NET CASH FLOWS GENERATED /ABSORBED DURING THE YEAR D	**16**	**-**	**-**
CASH AND CASH EQUIVALENTS: EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES F			
CLOSING CASH AND CASH EQUIVALENTS G=E+/-D+/-F	**50**	**34**	**34**

Notes to the Consolidated Financial Statements

The Notes to the Consolidated Financial Statements are divided into the following parts:

Part A – Accounting policies
Part B – Consolidated statement of financial position
Part C – Consolidated income statement
Part D – Consolidated statement of comprehensive income
Part E – Information on risks and risk management policies
Part F – Consolidated equity
Part G – Business combinations
Part H – Related-party transactions
Part I – Share-based payments
Part L – Segment reporting

Part A – Accounting policies

A.1 – General part

Section 1 – Statement of compliance with international accounting standards

The Consolidated Financial Statements at 31 December 2017 have been drawn up in accordance with the IASs/IFRSs in force at said date issued by the International Accounting Standards Board (IASB), together with the relevant interpretations (IFRICs and SICs). These standards were endorsed by the European Commission in accordance with the provisions in article 6 of European Union Regulation no. 1606/2002. This regulation was transposed into Italian law with Legislative Decree no. 38 of 28 February 2005.

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

The accounting standards adopted in preparing these financial statements are those in force at 31 December 2017 (including SIC and IFRIC interpretations).

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

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

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

Section 2 – Basis of preparation

The consolidated financial statements consist of:

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

In addition, they contain the Directors' Report.

Finally, as per article 123-bis of Italian Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance), the Report on Corporate Governance and Shareholding Structure is available in the "Corporate Governance" Section of the Bank's website www.bancaifis.it.

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

For the preparation of these Consolidated Financial Statements, reference was made to the format set out by Bank of Italy's Circular no. 262 of 22 December 2005, 4th update of 15 December 2015.

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

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

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.

We have used the same classification for the items in the financial statements as in the previous financial year.

Following the restatement of the acquisition cost for the former GE Capital Interbanca Group, as described in the paragraph "Introductory notes on how to read the data" of the Directors' Report, this restatement has been reported in the Consolidated Financial Statements, which present both the amounts of the consolidated financial statements for the year ended 31 December 2016 and the corresponding restated amounts at 1 January 2017 (column "31 December 2016 Restated") as comparative data. The tables in these Notes to the Consolidated Financial Statements present only the restated amounts as comparative information.

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 estimations", as well as 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.

In this regard, having examined the risks and uncertainties associated with the present macro-economic context, and considering the financial and economic plans drawn up by the parent company, the Banca IFIS Group can indeed be considered a going concern, in that it can be reasonably expected to continue to operate in the foreseeable future. Therefore, the 2017 Consolidated Financial Statements have been prepared in accordance with this fact.

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

Section 3 - Consolidation scope and method

The Consolidated Financial Statements of the Banca IFIS Group were drawn up based on the accounts at 31 December 2017 prepared by the directors of the companies included in the scope of consolidation, which changed compared with the previous year as a result of the merger of the subsidiaries IFIS Factoring S.r.l. and Interbanca S.p.A. into Banca IFIS S.p.A., the acquisition of control of Two Solar Park 2008 S.r.l., and the establishment of the wholly-owned subsidiary IFIS NPL S.p.A..

At 31 December 2017, the Group was composed of the parent company, Banca IFIS S.p.A., the wholly-owned subsidiaries IFIS Finance Sp. Z o. o., IFIS Leasing S.p.A., IFIS Rental Services S.r.l., IFIS NPL S.p.A., and Two Solar Park 2008 S.r.l..

All the companies are consolidated using the line-by-line method.

As explained in part G of these notes, the Bank obtained control of Two Solar Park 2008 S.r.l. on 28 July 2017 following the restructuring of the company's debts.

In December 2017, Banca IFIS announced the creation of IFIS NPL, the Banca IFIS company into which it will spin off the NPL Area.

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.

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

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

As for the subsidiary IFIS Finance Sp. Z o.o., the consolidation process has brought about goodwill for 834 thousand Euro at the period-end exchange rate, recognised under item 130 'Intangible assets'.

1. Investments in exclusively controlled companies

Name of the company	Registered office	Head office	Type (1)	Investment		Voting rights % (2)
				Held by	Share %	
IFIS Finance Sp. Z o.o.	Warsaw	Warsaw	1	Banca IFIS S.p.A.	100%	100%
IFIS Leasing S.p.A.	Mondovì - Province of Cuneo	Mondovì - Province of Cuneo	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.	Mestre	Florence, Milan and Mestre	1	Banca IFIS S.p.A.	100%	100%
Two Solar Park 2008 S.r.l.	Milan	Milan	1	Banca IFIS S.p.A.	100%	100%
IFIS ABCP Programme S.r.l.	Conegliano - Province of Treviso	Conegliano - Province of Treviso	4	Other	0%	0%
Indigo Lease S.r.l.	Conegliano - Province of Treviso	Conegliano - Province of Treviso	4	Other	0%	0%

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 = exclusive control as per article 26, paragraph 1, of Legislative Decree no. 87/92
6 = exclusive control as per article 26, paragraph 2, of Legislative Decree no. 87/92
(2) Voting rights in the Annual Shareholders' Meeting, distinguishing between effective and potential voting rights.

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

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

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

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

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 31 December 2017. These SPVs are not formally part of the Banca IFIS Group.

Section 4 – Subsequent events

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

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

Section 5 – Other aspects

Risks and uncertainties related to estimates

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

Specifically, it made estimates on the carrying amounts of some items recognised in the consolidated financial statements at 31 December 2017, as per the relevant accounting standards. These estimates are largely based on the expected future recoverability of the amounts recognised and were made on a going concern basis. Such estimates support the carrying amounts reported at 31 December 2017.

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

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

- fair value of financial instruments not quoted in active markets;
- receivables of the NPL Area;
- receivables managed by the Pharma BU, and specifically the interest on arrears considered recoverable;
- non-performing exposures related to the Trade Receivables, Corporate Banking and Leasing sectors;
- provisions for risks and charges;
- post-employment benefits;
- goodwill and other intangible assets.

As for the receivables of the Pharma BU, during 2016 the Group implemented a new model to estimate the cash flows from receivables due from Italy's National Health Service acquired and managed by the Pharma BU. Specifically, the Group estimates the interest on arrears considered recoverable from the acquisition date 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 231/2002 on performing loans purchased outright".

Concerning specifically the measurement of NPL Area receivables, the risk management, when assessing the Bank's capital adequacy, regularly assesses the so-called model risk by carrying out specific analyses, since the characteristics of the business model imply a high level of variability concerning both the amount collected and the date of actual collection. 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 funding characteristics, the Bank uses a "deterministic" model based on the measurement of the future instalments of the settlement plan, net of the historical default rate. Therefore, the timely and careful management of cash flows is particularly important. In order to ensure expected cash flows are correctly assessed, also with a view to correctly pricing the operations undertaken, the Group carefully monitors the trend in collections compared to expected flows.

For more details, please see the description of the measurement basis used for the segment's receivables.

Coming into effect of new accounting standards

Standards issued, effective and applicable to these financial statements

The consolidated financial statements at 31 December 2017 have been drawn up in accordance with the IASs/IFRSs in force at 31 December 2017. See the paragraph *Statement of compliance with international accounting standards.*

The Group has adopted for the first time some accounting standards and amendments effective for annual periods beginning on or after 1 January 2017. 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 Consolidated Financial Statements.

- amendments to IAS 7 Statement of Cash Flows: improvement in the disclosure of changes in the company's debt
- amendments to IAS 12 Income Taxes: clarification of the accounting for Deferred Tax Assets for unrealised losses on debt instruments measured at fair value.
- annual improvements to IFRSs - 2014-2016 Cycle, which concerned the international accounting standard IFRS 12 Disclosure of Interests in Other Entities: clarification of the scope of the disclosure requirements in the standard.

The Group has not adopted early any other standard, interpretation or amendment issued but not endorsed by the European Union.

Standards issued but not yet effective

IFRS 9 - Financial Instrument applicable from 1 January 2018

In accordance with IAS 8, paragraphs 30 and 31, and the guidelines issued by ESMA (European Securities and Markets Authority), below are the disclosures of the implementation of IFRS 9 – Financial Instrument for the Banca IFIS Group.

Regulatory requirements

Effective 1 January 2018, the new IFRS 9 accounting standard, issued by the IASB in July 2014 and endorsed by the European Commission with Regulation no. 2067/2016, supersedes IAS 39 in governing the classification and measurement of financial instruments. It is divided into three different areas: classification and measurement of financial instruments, impairment, and hedge accounting.

As for classification, under IFRS 9 it is based on both the relevant contractual cash flow characteristics and the entity's business model for managing the financial assets.

Under IFRS 9, financial assets can be classified into three categories according to the two mentioned drivers:

- Financial assets measured at amortised cost,
- Financial assets at fair value through other comprehensive income (for debt instruments, the reserve is recognised through profit or loss in the event the instrument is sold), and, finally,
- Financial assets at fair value through profit or loss.

Financial assets can be classified in the first two categories and measured at amortised cost or fair value through equity if, and only if, they are shown to give rise to cash flows that are solely payments of principal and interest (so-called “SPPI test”). Equity instruments are always classified in the third category and measured at fair value through profit or loss, unless the entity makes an irrevocable election at initial recognition to present changes in the fair value of equity instruments not held for trading in a component of equity that will never be transferred to profit or loss, not even in the case the financial instrument is sold (Financial assets at fair value through other comprehensive income without “recycling”).

Concerning impairment, for the instruments measured at amortised cost and fair value through equity (other than equity instruments), IFRS 9 replaces the existing incurred loss model with an expected loss model, so as to recognise impairment losses in a more timely manner. Under IFRS 9, entities must recognise 12-month expected credit losses (stage 1) since the initial recognition of the financial instrument. If the credit quality of the financial instrument has deteriorated “significantly” since initial recognition (stage 2) or become “impaired” (stage 3), entities must recognise the lifetime expected credit loss.

The introduction of the new impairment rules requires:

- allocating performing financial assets to different credit risk stages (staging), resulting in the recognition of 12-month expected credit losses (so-called “Stage 1”) or lifetime expected credit losses (so-called “Stage 2”), based on a significant increase in credit risk («SICR») calculated by comparing the Probability of Default as at the date of initial recognition and as at the reporting date, or by early warning signs or payments more than 30 days past due;

- allocating non-performing financial assets to “Stage 3”, recognising impairment losses on an individual basis or using “fixed” percentages based on historical observed default rates related to the status of the position.

Implementation project

Considering the impact of the changes introduced by IFRS 9 on both the business and for organisational and reporting purposes, the Banca IFIS Group launched a project as soon as in 2016 to study the different areas affected by the standard, define its qualitative and quantitative impacts, and identify and implement enforcement and organisational actions to adopt it in a consistent, organic and effective manner both within the Group as a whole and at each one of its entities.

We also deem it appropriate to recall the “general” decisions made by the Group concerning the presentation of the impact of the new impairment rules on own funds in accordance with the recent changes to prudential regulations as well as the presentation of comparative information in the year the standard is adopted for the first time. In particular:

- on 12 December 2017, the European Parliament and the Council issued Regulation (EU) 2017/2395 “Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds”, amending Regulation 575/2013 CRR, adding the new article 473 bis «Introduction to IFRS9» that allows banks to mitigate the impact of the introduction of IFRS 9 on own funds for a transitional period of 5 years (from March 2018 to December 2022), re-including a gradually diminishing amount of said impact in CET1. The Banca IFIS Group has elected to adopt a more dynamic approach that includes:

    - the impact of the first implementation resulting from the comparison of impairment losses under IAS 39 at 31 December 2017 and IFRS 9 at 1 January 2018, including the losses on non-performing loans (included in stage 3) and

    - the impact resulting from the comparison of impairment losses at 1 January 2018 and subsequent reporting periods up to 31 December 2022 (considering only the increases in impairment losses on the exposures classified in stages 1 and 2, therefore excluding the losses on non-performing loans included in stage 3).

- Finally, concerning the presentation of the impact of the first implementation of the standard, the Group will exercise the option in paragraph 7.2.15 of IFRS 9, which does not require restating comparative information in the year the new standard is adopted for the first time—without prejudice to the application of the new classification and measurement requirements of IFRS 9. According to the guidelines in the provision enacting the 5th update to Circular 262 “Banks’ financial statements: layout and preparation”, issued in late December 2017, the banks that will exercise the option not to restate the comparative information shall include in the first set of financial statements prepared on the basis of the new Circular 262 a statement of reconciliation specifying the method used and reconciling the figures of the last approved set of financial statements and the first financial statements prepared according to the new provisions. The decision as to the form and contents of these disclosures is left to the discretion of the competent corporate bodies.

On 31 January 2018, Banca IFIS notified the Bank of Italy of its decision.

Moving on to the analysis of the IFRS 9 project, below is a brief description of the activities carried out and nearing completion concerning the previously identified main impact areas.

Classification and Measurement

In order to comply with IFRS 9—under which financial assets are classified based on both their contractual cash flow characteristics and the entity's business model for managing them—the Bank decided how to conduct the so-called SPPI test and formalised the business models adopted by the various business areas.

As for the SPPI test on financial assets, the Bank established the method it will use and finalised the analysis of the composition of outstanding securities and loan portfolios, so as to properly classify them upon the first implementation of the new standard.

Concerning debt securities, the Bank carefully examined the cash flow characteristics of the instruments measured at amortised cost and as Available for sale financial assets under IAS 39 to identify the assets that, having failed the SPPI test, must be measured at fair value through profit or loss under IFRS 9.

Based on the analyses carried out, relative to the Group's overall portfolio, only an immaterial proportion of debt securities fails the SPPI test. These are mainly contractually linked instruments that give rise to greater concentrations of credit risk for the subscriber than if the latter had subscribed for the portfolio of underlying financial instruments.

Investment funds—classified as Available for sale financial assets under IAS 39—are excluded from the scope of the SPPI tests as, based on the analyses carried out and the clarification from the IFRS Interpretation Committee, it emerged that these funds (including open-end and closed-end funds) must be measured at fair value through profit or loss, giving rise to additional volatility in profit or loss in the future.

As for the receivables segment, the project involved carrying out modular analyses that accounted for the size of the portfolios, their consistency, and the Business Division. In this regard, the Bank adopted different approaches for retail and corporate loan portfolios, and found that the receivables would fail the SPPI test only in a few cases because of specific contractual clauses or their nature. Therefore, the Bank found that the FTA of the new standard did not have a material impact on the receivables segment.

Concerning the second driver of the classification of financial assets (business model), the Bank has defined the business model it will adopt under IFRS 9. In the case of “Held to Collect” portfolios, it established the thresholds for considering frequent sales that are not significant in value (individually and in aggregate), or that are infrequent but significant in value, consistent with the adopted business model; in addition, it set the parameters for identifying the sales consistent with said business model as attributable to an increase in credit risk. Based on the analyses carried out:

- in general, trading volumes for the securities portfolios currently measured at amortised cost are low, consistently with a "Held to Collect" business model. Furthermore, in principle the current management of receivables, due either from retail or corporate counterparties, is essentially consistent with a Held to Collect business model;

- in the case of the debt securities currently classified as Available for sale financial assets, the Bank has adopted a "Held to Collect and Sell" business model for most portfolios with the exception of investment funds, which, in accordance with the clarification of the IFRS Interpretation Committee, will be reclassified as "Financial assets at fair value through profit or loss". In any case, the impact of these reclassifications is modest, given the Banca IFIS Group's limited exposure to this type of investments;

- concerning equity securities, for all the equity instruments recognised at the reporting date as Available for sale financial assets under IAS 39, the Bank made an irrevocable election to present subsequent changes in their fair value in a component of equity that will never be transferred to profit or loss, not even in the case the financial instrument is sold (Financial assets at fair value through other comprehensive income without "recycling"). In addition, the Bank defined the general criteria for making decisions concerning equity instrument not held for trading acquired after 1 January 2018 and formalised the relevant organisational process.

Concerning the business model for managing financial assets, the Bank has finalised a document that has been approved by the competent governance levels to define and describe the main components of its business model, specifying their role in the context of the classification model as per IFRS 9.

Finally, after due consideration, the Bank decided not to exercise the Fair Value Option (separately recognising in equity the changes in fair value attributable to the change in its own credit risk) for the stock of financial liabilities outstanding at 1 January 2018.

With reference to credit belonging to the "POCI - Purchased or Originated Credit Impaired" category, accounting at amortized cost, already calculated by discounting estimated cash flows net of the expected lifetime losses, does not have any impact deriving from the first application of the new standard.

Impairment

Concerning impairment, the Bank:

- defined the method for tracking the credit quality of the positions included in portfolios of financial assets measured at amortised cost and at fair value through equity;

- defined the parameters for determining the significant increase in credit risk so as to correctly allocate performing exposures to either stage 1 or stage 2. As for impaired exposures, the alignment of the definitions of accounting and regulatory default—which is already effective—allows to consider the current basis of classification for "non-performing" exposures identical to the one for the exposures included within stage 3;

- developed the models to be used for the purposes of the stage allocation as well as the calculation of 12-month expected credit losses (ECL) (for stage 1 exposures) and lifetime expected credit losses (for stage 2 and stage 3 exposures).

Concerning the tracking of credit quality, the Bank thoroughly analysed the credit quality of each relationship in order to identify any "significant deterioration" since the date of initial recognition—which would require classifying the relationship in stage 2—as well as the requirements for transferring them to stage 1 from stage 2. The election made requires comparing, in each individual case and at each reporting date, the credit quality of the financial instrument at the measurement date and the issue or acquisition date for staging purposes. Therefore, the elements that will be key for the purposes of evaluating potential "transfers" between different stages are:

- the change in the lifetime probability of default since the initial recognition of the financial instrument. Therefore, this assessment is based on a "relative" criteria that acts as the main "driver";

- any past due exposure that—without prejudice to the materiality thresholds laid down in the regulation—is at least 30 days past due. In other words, in this case the credit risk of the exposure is considered to have "significantly increased", which requires "transferring" it to stage 2 (if the exposure was previously included in stage 1);

- any "forbearance" measures and/or classifications within "watchlists" that, prima facie, require classifying the exposure among those whose credit risk has "significantly increased" since initial recognition.

Finally, concerning only the first implementation of the standard, for some categories of exposures (duly identified and largely concerning securities quoted in active markets), the Bank will use the so-called "low credit risk exemption" as per IFRS 9, identifying the exposures that, at the date of the transition to the new standard, have a rating of at least "investment grade" (or similar) as exposures with a low credit risk, and therefore to be included in stage 1. The Bank will take a similar approach to intra-group exposures, be they receivables or securities, both upon the first implementation of the standard and also in subsequent periods, since these exposures essentially share the same risk of "last resort" represented by the Parent and the relevant rating (among those classified as "investment grade").

As in the case of the business model, the Bank has prepared a specific document in compliance with IFRS 9 and approved by the competent governance levels also for impairment.

The impact of first implementation

Based on the foregoing, below is an estimate of the impact of the first implementation of IFRS 9 on the Banca IFIS Group's consolidated equity at 1 January 2018. This analysis was based on currently available information and is subject to change as additional information becomes available to the Group in 2018, when it will adopt IFRS 9. These impacts, which concern both the amount and the composition of equity, mainly derive from the following:

- the requirement to restate impairment losses on financial assets (both performing and non-performing) using the "expected credit loss" model instead of the existing "incurred credit loss" model. Specifically, as far as performing exposures are concerned, the increase/decrease in impairment losses is attributable to:

  - the classification of part of the portfolio within stage 2, requiring a "lifetime" credit loss;
  - the recognition of impairment losses also on portfolios previously not subject to impairment (receivables due from banks, government bonds, guarantees received);
  - the alignment of calculation methods at the Group level;

- the need to reclassify some financial assets based on the combined result of the two classification drivers laid down in the standard: the business model for managing these instruments, and the relevant contractual cash flow characteristics (SPPI test).

The above resulted in a positive impact of approximately 5 million Euro, gross of tax effect, on the Banca IFIS Group's consolidated equity.

IFRS 15 Revenue from Contracts with Customers applicable from 1 January 2018

IFRS 15 requires recognising revenues in an amount that reflect the consideration to which the entity expects to be entitled in exchange for the transfer of goods or services to the customer. The new standard will supersede all existing revenue recognition requirements in IFRSs. The Group conducted a careful analysis in 2017 and determined that the standard will not have a material impact based on the type of products it offers.

IFRS 16 - Leases applicable from 1 January 2019

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It requires lessees to recognise all leases based on a single model similar to the one used for finance leases under IAS 17. The standard includes two exemptions for lessees—leases of "low value" assets (e.g. personal computers) and short-term leases (e.g. leases with a lease term of 12 months or less). At the commencement date, the lessee shall recognise a liability for the lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset for the lease term (i.e. the right-of-use asset). Lessees shall separately recognise interest expense on the lease liability and depreciation on the right-of-use asset.

"Improvements" to IFRS (2014-2016 issued by the IASB on 8 December 2016) applicable from 1 January 2018

These improvements include:

- IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters: the IASB deleted the short-term exemptions in paragraph E3-E7 of IFRS1, because they have now served their intended purpose. The amendment is effective for annual periods beginning on or after 1 January 2018. This amendment is not applicable to the Group.
- IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice. The amendments clarify that:
  - An entity that is a venture capital organisation, or other qualifying entity, may elect upon initial recognition and on an investment-by-investment basis to measure its investments in associates or joint ventures at fair value through profit or loss.
  - If an entity does not qualify as an investment entity and has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity (be it an associate or joint venture) to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each associate or joint venture qualifying as an investment entity at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

An entity shall apply those amendments retrospectively for annual periods beginning on or after 1 January 2018; earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. These amendments are not applicable to the Group.

Deadlines for the approval and publication of the separate financial statements

Pursuant to art. 154-ter of Italian Legislative Decree no. 58/98 (Consolidated Law on Finance), the Parent must approve the separate financial statements and publish the Consolidated Annual Financial Report, including the draft separate financial statements, the directors' report, and the declaration as per article 154-bis, paragraph 5, within 120 days of the end of the financial year. The Board of Directors approved the Parent's draft separate financial statements and the consolidated financial statements on 6 March 2018; the Parent's separate financial statements will be submitted to the Shareholders' Meeting to be held on 19 April 2018 on first call for approval.

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

A.2 – Main items of the financial statements

1 – Financial assets held for trading

Classification criteria

Financial assets held for trading include financial instruments held with the intention of generating profit from fluctuations in their prices in the short term.

This category includes debt and equity securities and the positive fair value of derivative contracts held for trading. Derivative contracts include those embedded in complex financial instruments that are accounted for separately if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid (combined) instrument is not recognised under financial assets or liabilities held for trading.

Recognition criteria

Financial assets are initially recognised at the date of settlement in the case of debt and equity securities, and at inception in the case of derivative contracts. At initial recognition, financial assets held for trading are measured at cost, that is the instrument's fair value, excluding the expenses and income directly attributable to the instrument, which are recognised in profit or loss. The implied derivative component in structured instruments that is not closely related to the host contract and meets the definition of a derivative instrument is separated from the host contract and measured at fair value, while the host contract is recognised using the relevant accounting policy.

Measurement criteria

Also subsequent to initial recognition, financial assets held for trading are measured at fair value.

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

Specifically, the instruments included in this item are unquoted derivative instruments measured using generally accepted valuation models based on market inputs. As for the counterparty risk associated with derivatives outstanding with Corporate counterparties, the performing portfolio is measured using PD and LGD inputs on which the collective assessment of receivables is based, while the non-performing portfolio is assessed individually.

Derecognition criteria

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

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

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

2 – Available for sale financial assets

Classification criteria

These are financial assets not classified as loans and receivables, held-to-maturity investments, or financial assets held for trading. They can fall under available-for-sale financial investments, money market securities, other debt instruments and equity securities.

Recognition criteria

Available for sale financial assets are initially recognised at fair value, i.e. the cost of the operation including transaction costs directly attributable to the instrument, if any.

For interest-bearing instruments, interest is recognised at amortised cost, using the effective interest method.

Measurement criteria

Subsequent to their initial recognition, these investments are measured at their year-end fair value. The fair value is calculated based on the same criteria as those used for financial assets held for trading. Gains and losses resulting from changes in fair value are recognised under a dedicated equity reserve until the financial asset is transferred: then, accrued profits and losses are recognised in profit or loss. Changes in fair value recognised in the item "valuation reserve" are also included in the statement of comprehensive income under item 100 "Available for sale financial assets".

If there is objective evidence that the asset is permanently impaired, the accrued loss recognised directly to equity is transferred to profit or loss. The total amount of this loss is equal to the difference between the carrying amount (acquisition cost, net of any impairment losses previously recognised in the income statement) and the fair value.

As for debt instruments, any circumstances indicating that the borrower is experiencing financial difficulties that could undermine the collection of the principal or interests represent a permanent impairment loss.

As far as equity instruments are concerned, the existence of impairment losses is assessed on the basis of indicators such as fair value falling below cost and adverse changes in the environment in which the company operates, as well as the issuer's debt servicing difficulties. A significant or lasting fall in the fair value of an equity instrument below its cost is considered objective evidence of an impairment loss. The impairment loss is considered significant if the fair value falls by more than 20% below cost, and is considered lasting if it persists for more than 9 months.

If, at a later date, the fair value of a debt instrument increases and such an increase can be objectively related to an event occurring after the period in which the impairment loss was recognised in profit or loss, the impairment loss is reversed, recognising the corresponding amount in profit or loss.

As for equity securities, instead, if the grounds for impairment no longer exist, the impairment losses are later reversed through equity.

Derecognition criteria

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

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

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

4 - Loans and receivables

Classification criteria

Receivables include loans to customers and banks with fixed or determinable payment dates and not traded on an active market.

Receivables due from customers largely consist of:

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

Distressed retail loans, due to their nature, are classified as either unlikely to pay or bad loans according to the criteria established in Circular 272/2008, which sets out the rules for reporting on supervisory, statistical, and financial matters as well as prudential capital ratios, and Circular 139/1991, relating to the Central Credit Register. In particular, those loans maintain the same classification as that assigned by the invoice seller, provided the latter is subject to the same law as Banca IFIS: otherwise, if the Bank has not ascertained the debtor's state of insolvency, those loans are classified as unlikely to pay.

Recognition criteria

Receivables are initially recognised at the date they are granted and/or acquired at fair value, or, in the case of a debt security, the date of settlement, based on the fair value of the financial instrument, which is equal to the amount granted or the subscription price, including transaction costs. Transaction costs are incremental costs that are directly attributable to the acquisition or granting of loans and determinable right from the beginning of the transaction, even if settled at a later date. Incremental costs are those costs that the company would not have incurred had it not acquired or granted the loan. Costs meeting these characteristics, but to be reimbursed by the debtor or falling under normal internal administrative costs, are excluded.

When the net amount granted does not correspond to the asset's fair value because the interest rate applied was lower than the market rate or the rate usually applied to loans with similar characteristics, loans and receivables are initially recognised at an amount equal to the discounting of future cash flows using a market rate. The difference compared to the amount granted or the subscription price is recognised directly in profit or loss.

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

Measurement criteria

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

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

At the end of every reporting period, including interim periods, receivables are reviewed in order to identify those objectively at risk of impairment following events occurred after their initial recognition. In accordance with both the Bank of Italy’s regulations and IASs, bad loans, unlikely to pay, and past due exposures fall into this category.

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

As for the **non-performing exposures included in the trade receivables sector**, they were measured according to the following criteria.

Bad loans are individually evaluated, and the total amount of the impairment loss on each loan is equal to the difference between the carrying amount at measurement (amortised cost) and the present value of expected future cash flows, calculated by applying the effective interest method at the moment in which the loan went bad. Expected cash flows are calculated taking into account expected recovery times based on historical elements and other significant characteristics, as well as the estimated realisable value of guarantees, if any.

Each subsequent change in the amount or maturities of expected cash flows causing a negative change from the initial estimates results in the recognition of an impairment loss in profit or loss.

If the quality of a non-performing exposure improves and there is reasonable certainty of a timely recovery of both principal and interest, in keeping with the relevant initial terms and conditions, the impairment loss is reversed through profit and loss to a value not higher than the amortised cost that would have been incurred if no impairment loss had been recognised.

Outstanding gross loans below 100 thousand Euro as well as those above 100 thousand Euro which went bad over 10 years prior to the reporting date are written down to zero.

Unlikely to pay loans amounting to more than 100 thousand Euro are evaluated individually; the write-down to each loan is equal to the difference between the amount recognised in the balance sheet at the time of recognition (amortised cost) and the current value of expected future cash flows, calculated using the original effective interest rate or, in case of indexed rates, the last contractually applied rate. If the individual evaluation does not indicate any impairment, they are collectively tested for impairment.

Unlikely to pay loans amounting to less than 100 thousand Euro are collectively tested for impairment.

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

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

Non-performing exposures included in the NPL Area sector are recognised and assessed through the following steps:

1. at the time of purchase, receivables are recognised by allocating the portfolio's purchase price among the individual receivables it consists of through the following steps:
   - recognition of the individual receivables at a value equal to the contract price, which is used for the purposes of reporting to the Central Credit Register;
   - after verifying the documentation, if provided in the contract, the Bank returns the loans lacking documentation or beyond the statute of limitations to the seller, and measures the fair value of receivables which actually exist and can be collected; finally, after sending a notice of assignment to the debtor, the Bank can start taking action to collect the receivable;
2. once the collection process begins, receivables are measured at amortised cost using the effective interest rate method;
3. the effective interest rate is calculated on the basis of the price paid, the transaction costs, if any, and the estimated cash flows and collection time calculated using either a proprietary model (point 5), or analytical estimates made by managers;

4. the effective interest rate as set out in the previous point is unchanged over time;
5. 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 funding characteristics, the Bank uses a “deterministic” model based on the measurement of the future instalments of the settlement plan, net of the historical default rate;
6. at the end of each reporting period, interest income accrued on the basis of the original effective interest rate is recognised under Interest Income. Said interest is calculated as follows: Amortised Cost at the beginning of the period x IRR/365 x days in the period;
7. in addition, at the end of each reporting period, the expected cash flows for each position are re-estimated;
8. should events occur (higher or lower revenues realised or expected compared to forecasts and/or a change in collection times) which cause a change in the amortised cost (calculated by discounting the new cash flows at the original effective rate compared to the amortised cost in the period), this change is also recognised under Interest Income;
9. in case of impairment events, the changes in the amortised cost (calculated by discounting the new cash flows at the original effective interest rate compared to the period's amortised cost) are recognised under item 130 Net impairment losses/reversals on receivables; if an impairment loss had already been recognised, reversals can be recognised up to the amount of said impairment loss, recognising the surplus under Interest Income.

Tax receivables are classified under performing loans, since they are due from the Public Administration.

As for the **non-performing exposures included in the Corporate Banking and Leasing sectors**, they were measured according to the following criteria.

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

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

The restructuring of non-performing exposures by converting them in full or in part into shares in the borrowing firms is measured based on the fair value of the shares received in exchange for the receivable, in accordance with IFRIC 19; such shares are measured at fair value using the methods for equity investments based on their classification for accounting purposes.

For other renegotiations, the Bank derecognises the receivable and recognises a new financial asset if the changes in contractual terms are material.

Restructuring procedures concern loans to customers in financial distress for which the renegotiation resulted in a financial loss for the Bank; in this case, the specific write-down is calculated based on the original interest rate.

The loans for which there is no individual objective evidence that an impairment loss has been incurred, i.e. **performing loans**, including those to counterparties in high-risk countries, are collectively tested for impairment. Such measurement applies to categories of loans with a homogeneous credit risk. The relevant losses are estimated as a percentage of the original loan amount by taking into account historical time series based on observable market data existing at the time of measurement and allowing to calculate the latent losses for each category. Collective impairment losses are recognised in profit or loss.

At each reporting date, any additional impairment losses or reversals are calculated on a differential basis relative to the entire portfolio of performing receivables at the same date.

Derecognition criteria

A receivable is entirely derecognised when it is considered unrecoverable. Derecognitions are directly recorded under net impairment losses on receivables and are recognised as a reduction of the principal. Partial or complete reversals of previous impairment losses are recognised as a reduction of net impairment losses on receivables.

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

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

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

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

8 - Property, plant and equipment and investment property

Classification criteria

The item includes tangible assets used in operations and those held for investment. It also includes those acquired under finance leases.

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

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

Property, plant and equipment for functional use include:

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

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

This item also includes assets used as a lessee under lease contracts.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee.

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

Recognition criteria

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

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

Measurement criteria

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

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

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

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

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

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

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

The usually estimated useful lives are the following:

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

Derecognition criteria

Property, plant and equipment and investment property are derecognised from the statement of financial position on disposal or when they are withdrawn from use and no future economic benefits are expected from their disposal.

9 - Intangible assets

Classification criteria

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

Recognition criteria

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

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

Measurement criteria

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

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

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

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

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

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

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

Derecognition criteria

An intangible asset is derecognised from the statement of financial position on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal.

11 – Current and deferred taxes

Classification criteria

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

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

Deferred tax assets and liabilities are recognised in the statement of financial position at pre-closing balances and without set-offs, and are included in the items 'tax assets' and 'tax liabilities', respectively.

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

Recognition and measurement criteria

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

Deferred tax assets are entered in the statement of financial position according to the likelihood of their recovery, calculated on the basis of the company's (or, due to tax consolidation, the parent company's) ability to continue to generate positive taxable income.

Deferred tax liabilities are entered in the statement of financial position, with the sole exception of the tax-relieved major assets represented by strategic investments not expected to be sold and reserves, as it can be safely assumed that operations giving rise to their taxation will be avoided, based on the amount of already taxed available reserves.

12 – Provisions for risks and charges

These provisions consist of liabilities arising when:

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

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

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

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

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

13 – Payables and outstanding securities

Classification criteria

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

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

Recognition criteria

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

Measurement criteria

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

Compound debt instruments, connected to equity instruments, foreign currencies, credit instruments or indexes are all considered structured instruments. The embedded derivative is split from the host contract and accounted for separately if the criteria for splitting are met. The embedded derivative is recognised at its fair value and then measured. Any fair value changes are recognised in profit or loss.

The value corresponding to the difference between the total collected amount and the fair value of the embedded derivative is attributed to the host contract and then measured at amortised cost.

Instruments convertible into newly issued treasury shares are considered as structured instruments and imply the recognition, at the date of issue, of a financial liability and an equity component.

The instrument's residual value, resulting from the deduction from its overall value of the value separately calculated for a financial liability without conversion clause with the same cash flows, is attributed to the equity component.

The financial liability is recognised net of directly attributable transaction costs and later measured at amortised cost using the effective interest method.

Derecognition criteria

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

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

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

14 – Financial liabilities held for trading

Classification criteria

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

Recognition criteria

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

Measurement criteria

Also subsequent to initial recognition, financial liabilities held for trading are measured at fair value at the reporting date. The fair value is calculated based on the same criteria as those used for financial assets held for trading.

Derecognition criteria

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

16 – Foreign currency transactions

Initial recognition

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

Subsequent recognitions

At each reporting date, including interim periods, foreign currency monetary items are translated using the closing rate.

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

18 - Other information

Post-employment benefits

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

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

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

In particular:

- benefits earned as from 1 January 2007 constitute a defined-contribution plan, regardless of whether the employee has chosen to allocate them to a supplementary pension fund or to INPS's Treasury

Fund. Those benefits shall be calculated according to contributions due without applying actuarial methods;

- benefits earned up to 31 December 2006 continue to be considered as a defined-benefit plan, and as such are calculated on an actuarial basis which, however, unlike the calculation method applied until 31 December 2006, no longer requires that the benefits be proportionally attributed to the period of service rendered: the employee's service is considered entirely accrued due to the change in the accounting nature of benefits earned as from 1 January 2007.

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

Share-based payments

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

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

As a general rule, IFRS 2 requires entities to recognise share-based payment transactions as personnel expenses, with a corresponding increase in equity; the cost is amortised on a straight-line basis over the vesting period.

Treasury shares

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

Recognition of income and costs

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

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

Dividends

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

Repurchase agreements

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

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

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

Amortised cost

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

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

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

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

A.4 – Fair value disclosure

Qualitative disclosure

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

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

- Level 1: the instrument's fair value is measured based on quoted prices in active markets.
- Level 2: the instrument's fair value is measured based on valuation models using inputs observable in active markets, such as:

a) quoted prices for similar assets or liabilities;
b) quoted prices for identical or similar assets or liabilities in non-active markets;
c) observable inputs such as interest rates or yield curves, implied volatility, default rates and illiquidity factors;
d) 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 Bank 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 choice among the valuation techniques is not optional, since these shall be applied in a hierarchical order: indeed, the fair value hierarchy gives the highest priority to (unadjusted) quoted prices available in active markets for identical assets or liabilities (Level 1 data) and the lowest priority to unobservable inputs (Level 3 data).

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

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

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

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

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

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

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

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

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

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

The receivables portfolio at fair value consists of the on-balance-sheet exposures classified as performing with a residual life exceeding one year (medium-long term[16]). Therefore, all exposures classified as in Default, the ones with a residual life less than one year, and unsecured loans are excluded from the valuation.

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

As for the receivables portfolio of the NPL Area, 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 spread, which, since there are no bond issuances to be used as a reference, was calculated using bond issuances of counterparties considered equivalent as a reference;
- financial statements and information from business plans.

[16] For short-term receivables, the book value is considered representative of fair value.

A.4.2 Measurement processes and sensitivity

In compliance with IFRS 13, for fair value measurements categorised within level 3, the Group tests their sensitivity to changes in one or more unobservable inputs used in the fair value measurements. Specifically, a negligible amount of the financial assets measured at fair value are categorised within level 3, except for NPL Area receivables.

A.4.3. Fair value hierarchy

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

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

Equity securities classified as available for sale financial assets are transferred between levels when:

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

Quantitative disclosure

A.4.5 - Fair value hierarchy

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

FINANCIAL ASSETS/LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS (in thousands of Euro)	31.12.2017			31.12.2016		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	-	35.425	189	-	39.893	7.500
2. Financial assets at fair value	-	-	-	-	-	-
3. Available for sale financial assets	430.908	14.339	11.302	355.626	16.586	2.017
4. Hedging derivatives	-	-	-	-	-	-
5. Property, plant and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**430.908**	**49.764**	**11.491**	**355.626**	**56.479**	**9.517**
1. Financial liabilities held for trading	-	38.171	-	-	46.447	2.031
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**38.171**	**-**	**-**	**46.447**	**2.031**

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.

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

ANNUAL CHANGES IN ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS (LEVEL 3) (in thousands of Euro)	Financial assets held for trading	Financial assets at fair value	Available for sale financial assets	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balance	**7.500**	**-**	**2.017**	**-**	**-**	**-**
2. Increases	**276**	**-**	**10.398**	**-**	**-**	**-**
2.1 Purchases	-	-	9.857	-	-	-
2.2 Profit taken to:						
2.2.1 Profit or loss	-	-	-	-	-	-
- of which: Capital gains	-	-	-	-	-	-
2.2.2 Equity	X	X	541	-	-	-
2.3 Transfers from other levels (1)	-	-	-	-	-	-
2.4 Other increases	276	-	-	-	-	-
3. Decreases	**7.587**	**-**	**1.113**	**-**	**-**	**-**
3.1 Sales	-	-	1.111	-	-	-
3.2 Redemptions	1.587	-	-	-	-	-
3.3 Losses taken to:			-			
3.3.1 Profit or loss	-	-	-	-	-	-
- of which capital losses	-	-	-	-	-	-
3.3.2 Equity	X	X	1	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	6.000	-	1	-	-	-
4. Closing balance	**189**	**-**	**11.302**	**-**	**-**	**-**

Other decreases in financial assets held for trading referred to the settlement of a position as part of a broader transaction with a third party.

Level 3 available for sale financial assets refer mainly to equity interests and UCITS units.

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3)

	Financial liabilities held for trading	Financial liabilities at fair value	Hedging derivatives
1. Opening balance	**2.031**	**-**	**-**
2. Increases	**-**	**-**	**-**
2.1 Issues	-	-	-
2.2 Losses taken to:			
2.2.1 Profit or loss	-	-	-
- *of which: capital losses*	-	-	-
2.2.2 Equity	X	X	-
2.3 Transfers from other levels	-	-	-
2.4 Other increases	-	-	-
3. Decreases	**2.031**	**-**	**-**
3.1 Redemptions	2.031	-	-
3.2 Repurchases	-	-	-
3.3 Profit taken to:			
3.3.1 Profit or loss	-	-	-
- *of which capital gains*	-	-	-
3.3.2 Equity	X	X	-
3.4 Transfers to other levels	-	-	-
3.5 Other decreases	-	-	-
4. Closing balance	**-**	**-**	**-**

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2017				31.12.2016			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held to maturity financial assets	-	-	-	-	-	-	-	-
2. Due from banks	1.777.876	-	-	1.777.876	1.393.358	-	-	1.393.358
3. Loans to customers	6.435.806	-	-	6.571.304	5.928.212	-	-	5.957.897
4. Property, plant and equipment held for investment purpose	720	-	-	880	720	-	-	926
5. Non-current assets and disposal groups	-	-	-	-	-	-	-	-
Total	**8.214.402**	**-**	**-**	**8.350.060**	**7.322.289**	**-**	**-**	**7.352.181**
1. Due to banks	791.977	-	-	791.977	503.964	-	-	503.964
2. Due to customers	5.293.188	-	-	5.294.394	5.045.136	-		5.065.578
3. Debt securities issued	1.639.994	88.768	712.400	850.309	1.488.556	83.173	-	1.405.334
4. Liabilities associated with non-current assets	-	-	-	-	-	-	-	-
Total	**7.725.159**	**88.768**	**712.400**	**6.936.680**	**7.037.656**	**83.173**	**-**	**6.974.876**

Key

BV= book value
L1= Level 1
L2= Level 2
L3= Level 3

Part B – Consolidated statement of financial position

ASSETS

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	31.12.2017	31.12.2016
a) Cash	50	34
b) On demand deposits at Central banks	-	-
Total	**50**	**34**

Section 2 - Financial assets held for trading - Item 20

2.1 Financial assets held for trading: breakdown by type

Type/Amounts	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	-
1.2 Other	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives						
1. Financial derivatives	-	35.425	189	-	39.893	7.500
1.1 For trading	-	35.425	189	-	39.893	7.500
1.2 connected to the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 For trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**-**	**35.425**	**189**	**-**	**39.893**	**7.500**
Total (A+B)	**-**	**35.425**	**189**	**-**	**39.893**	**7.500**

The financial assets and liabilities held for trading outstanding at 31 December 2017 referred to interest rate derivatives that the merged entity Interbanca S.p.A. negotiated with its Corporate clients up to 2009 to provide them with instruments to hedge risks such as fluctuations in interest rates. In order to remove market risk, all outstanding transactions are hedged with "back to back" trades, in which Interbanca assumed a position opposite to the one sold to corporate clients with independent market counterparties.

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

Type/Amounts	31.12.2017	31.12.2016
A. On-balance-sheet assets		
1. Debt securities	**-**	**-**
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity securities	**-**	**-**
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. UCITS units	**-**	**-**
4. Loans	**-**	**-**
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
Total A	**-**	**-**
B. Derivatives		
a) Banks		
- fair value	17.373	4.340
b) Customers		
- fair value	18.241	43.053
Total B	**35.614**	**47.393**
Total (A+B)	**35.614**	**47.393**

Section 4 - Available for sale financial assets – Item 40

4.1 Available for sale financial assets: breakdown by type

Type/Amounts	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	427.833	-	43	353.150	-	-
1.1 Structured	-	-	-	-	-	-
1.2 Other	427.833	-	43	353.150	-	-
2. Equity securities	3.075	10.223	1.646	2.476	12.647	2.017
2.1 At fair value	3.075	10.223	1.646	2.476	12.647	2.017
2.2 At cost	-	-	-	-	-	-
3. UCITS units	-	4.116	9.613	-	3.939	-
4. Loans	-	-	-	-	-	-
Total	**430.908**	**14.339**	**11.302**	**355.626**	**16.586**	**2.017**

Level 1 “other debt securities” refer to floating-rate Italian government bonds—mainly BTP Italia. The increase compared to the previous year was mainly the result of the purchases made during the period.

“Equity securities” referred to minority interests: the relevant change was the result of the adjustment of their fair value as well as the sale of the interest in Cassa di Risparmio di Cesena held through Italy's voluntary Interbank Deposit Protection Fund scheme (FITD, *Fondo Interbancario di Tutela dei Depositi*). UCITS units were up because of a new acquisition as well as the restructuring of an impaired position.

4.2 Available for sale financial assets: breakdown by debtor/issuer

Type/Amounts	31.12.2017	31.12.2016
1. Debt securities	**427.876**	**353.150**
a) Governments and Central banks	427.833	353.150
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	43	-
2. Equity securities	**14.944**	**17.140**
a) Banks	22	1.135
b) Other issuers:	14.922	16.005
- insurance companies	-	-
- financial companies	10.203	8.878
- non-financial companies	4.719	7.127
- other	-	-
3. UCITS units	**13.729**	**3.939**
4. Loans	**-**	-
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	**456.549**	**374.229**

Section 6 – Due from banks – Item 60

6.1 Due from banks: breakdown by type

Type / Amounts	31.12.2017				31.12.2016			
	BV	FV Level 1	FV Level 2	FV Level 3	BV	FV Level 1	FV Level 2	FV Level 3
A. Due from Central banks	**1.347.384**	**-**	**-**	**1.347.384**	**1.063.831**	**-**	**-**	**1.063.831**
1. Term deposits	-	X	X	X	-	X	X	X
2. Legal reserve	37.370	X	X	X	1.019.000	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Others	1.310.014	X	X	X	44.831	X	X	X
B. Due from banks	**430.492**	**-**	**-**	**430.492**	**329.527**	**-**	**-**	**329.527**
1. Loans	430.492	-	-	430.492	329.527	-	-	329.527
1.1 Current accounts and on demand deposits	324.947	X	X	X	239.590	X	X	X
1.2 Term deposits	102.836	X	X	X	88.034	X	X	X
1.3 Other loans:	2.709	-	-	2.709	1.903	-	-	1.903
- Reverse repurchase agreements	-	X	X	X	-	X	X	X
- Finance leases	601	X	X	X	1	X	X	X
- Other	2.108	X	X	X	1.902	X	X	X
2. Debt securities	-	-	-	-	-	-	-	-
2.1 Structured	-	X	X	X	-	X	X	X
2.2 Other	-	X	X	X	-	X	X	X
Total	**1.777.876**	**-**	**-**	**1.777.876**	**1.393.358**	**-**	**-**	**1.393.358**

Key
FV= fair value
BV= book value

Lending to other banks is not part of the Group's core business: the excess liquidity ensures the margin required to carry out banking operations as well as the funds necessary to seize potential market opportunities.

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

Section 7 – Loans to customers – Item 70

7.1 Loans to customers: breakdown by type

Type/Amounts	31.12.2017						31.12.2016					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Performing	Non-performing		L1	L2	L3	Performing	Non-performing		L1	L2	L3
		Acquired	Others					Acquired	Others			
Loans	**5.184.567**	**798.276**	**406.446**	X	X	X	**4.956.051**	**562.329**	**399.948**	X	X	X
1. Current accounts	56.160	51.303	29.575	X	X	X	51.174	25.112	12.072	X	X	X
2. Reverse repurchase agree-ments	-	-	-	X	X	X	-	-	-	X	X	X
3. Loans/mortgages	974.605	64.103	170.598	X	X	X	724.708	3.466	154.467	X	X	X
4. Credit cards, personal loans and salary-backed loans	8.353	387.727	912	X	X	X	15.521	305.697	1.722	X	X	X
5. Finance leases	1.010.614	259	9.785	X	X	X	814.914	240	12.947	X	X	X
6. Factoring	2.611.908	-	171.784	X	X	X	2.711.340	-	180.244	X	X	X
7. Other loans	522.927	294.884	23.792	X	X	X	638.394	227.814	38.496	X	X	X
Debt securities	**46.517**	**-**	**-**	X	X	X	**-**	**-**	**9.884**	X	X	X
8 Structured	-	-	-	X	X	X	-	-	-	X	X	X
9 Other	46.517	-	-	X	X	X	-	-	9.884	X	X	X
Total	**5.231.084**	**798.276**	**406.446**	**-**	**-**	**6.571.304**	**4.956.051**	**562.329**	**409.832**	**-**	**-**	**5.957.897**

Acquired non-performing exposures mainly refer to the distressed retail loans of the NPL area. whose business is by nature closely associated with recovering impaired assets. Therefore, loans in the DRL sector are recognised under bad loans or unlikely to pay. In particular, those loans maintain the same classification as that assigned by the invoice seller, provided the latter is subject to the same law as Banca IFIS: otherwise, if the Bank has not ascertained the debtor's state of insolvency, those loans are classified as unlikely to pay.

7.2 Loans to customers: breakdown by debtor/issuer

Type/Amounts	31.12.2017			31.12.2016		
	Performing	Non-performing		Performing	Non-performing	
		Acquired	Others		Acquired	Others
1. Debt securities:	**46.517**	**-**	**-**	**-**	**-**	**9.884**
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	46.517	-	-	-	-	9.884
- non-financial companies	5.009	-	-	-	-	9.884
- financial companies	41.508	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	**5.184.567**	**798.276**	**406.446**	**4.956.051**	**562.329**	**399.948**
a) Governments	122.276	-	14.522	95.011	-	11.484
b) Other public entities	622.604	6	39.763	799.917	1	42.229
c) Other parties	4.439.687	798.270	352.161	4.061.123	562.328	346.235
- non-financial companies	3.653.244	70.529	279.681	3.344.966	27.595	280.942
- financial companies	154.837	578	36.915	72.206	99	29.969
- insurance companies	16	1	-	-	-	-
- other	631.590	727.162	35.565	643.951	534.634	35.324
Total	**5.231.084**	**798.276**	**406.446**	**4.956.051**	**562.329**	**409.832**

7.4 Finance leases

	Future minimum lease payments	Current value of future minimum lease payments
Within 1 year	346.480	298.372
Between 1 and 5 years	756.652	710.715
Over 5 years	7.451	7.325
Total	**1.110.583**	**1.016.412**
Deferred financial profits	-	-
Bad debt provision	(15.580)	(15.580)
Recognised receivables	**1.095.003**	**1.000.832**

The reported amounts refer to IFIS Leasing.

Section 12 – Property, plant and equipment and investment property – Item 120

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

Assets/Amounts	31.12.2017	31.12.2016
1. Owned	**123.564**	**105.877**
a) Land	35.892	35.892
b) Buildings	61.551	62.735
c) Furnishings	1.924	1.780
d) Electronic systems	5.000	4.298
e) Others	19.197	1.172
2. 2.2 Acquired under finance leases	**3.597**	**3.751**
a) Land	-	-
b) Buildings	3.597	3.718
c) Furnishings	-	
d) Electronic systems	-	
e) Others	-	33
Total	**127.161**	**109.628**

The increase in this line item compared to the end of 2016 is largely attributable to the contribution from Two Solar Park 2008 S.r.l..

At the end of the period, the properties recognised under property, plant and equipment and investment property included the important historical building “Villa Marocco”, located in Mestre – Venice and housing Banca IFIS's registered office, as well as two buildings in Milan housing the offices of some Group companies.

Since Villa Marocco is a luxury property, it is not amortised, 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.

12.2 Investment property: breakdown of assets measured at cost

Assets/Amounts	31.12.2017				31.12.2016			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned	**720**	**-**	**-**	**880**	**720**	**-**	**-**	**926**
a) Land	-	-	-	-	-	-	-	-
b) Buildings	720	-	-	880	720	-	-	926
2. Acquired under finance leases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Land	-	-	-	-	-	-	-	-
b) Buildings	-	-	-	-	-	-	-	-
Total	**720**	**-**	**-**	**880**	**720**	**-**	**-**	**926**

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

	Land	Buildings	Furnish-ings	Electronic systems	Others	To-tal31.12.2017
A. Gross opening balance	**35.892**	**86.330**	**10.932**	**24.367**	**2.181**	**159.702**
A.1 Total net depreciation and impairment	-	(19.877)	(9.152)	(20.069)	(976)	(50.074)
A.2 Net opening balance	**35.892**	**66.453**	**1.780**	**4.298**	**1.205**	**109.628**
B. Increases	-	**477**	**488**	**2.101**	**19.082**	**22.148**
B.1 Purchases	-	477	488	2.101	19.082	22.148
of which: business combinations	-	-	-	-	17.732	17.732
B.2 Capitalised improvement expenses	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains taken to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-
C. Reductions	-	**(1.782)**	**(344)**	**(1.399)**	**(1.089)**	**(4.614)**
C.1 Sales	-	-	(3)	(4)	(193)	**(200)**
C.2 Depreciation	-	(1.782)	(341)	(1.358)	(896)	**(4.377)**
C.3 Impairment losses taken to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.4 Fair value losses taken to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to	-	-	-	-	-	-
a) Investment property	-	-	-	-	-	-
b) Assets under disposal	-	-	-	-	-	-
C.7 Other changes	-	-	-	(37)	-	**(37)**
D. Net closing balance	**35.892**	**65.148**	**1.924**	**5.000**	**19.197**	**127.161**
D.1 Total net depreciation and impairment	-	21.577	9.374	20.681	2.102	53.734
D.2 Gross closing balance	**35.892**	**86.725**	**11.298**	**25.681**	**21.299**	**180.895**
E. Measurement at cost	-	-	-	-	-	-

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

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

12.6 Investment property: annual changes

	31.12.2017	
	Land	Buildings
A. Opening balance	**-**	**720**
B. Increases	-	-
B.1 Purchases	-	-
B.2 Capitalised improvement expenses	-	-
B.3 Fair value gains:	-	-
B.4 Reversals of impairment losses	-	-
B.5 Exchange gains	-	-
B.6 Transfers from property for functional use	-	-
B.7 Other changes	-	-
C. Reductions	-	-
C.1 Sales	-	-
C.2 Depreciation	-	-
C.3 Fair value losses	-	-
C.4 Impairment losses	-	-
C.5 Exchange losses	-	-
C.6 Transfers to other asset portfolios	-	-
a) assets for functional use	-	-
b) non-current assets under disposal	-	-
C.7 Other changes	-	-
D. Closing balance	-	**720**
E. Measurement at fair value	-	880

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

Section 13 – Intangible assets – Item 130

13.1 Intangible assets: breakdown by asset type

Assets/Amounts	31.12.2017		31.12.2016	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill:	X	**834**	X	**799**
A.1.1 attributable to the group	X	834	X	-
A.1.2 attributable to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**23.649**	-	**14.182**	-
A.2.1 Assets measured at cost:	23.649	-	14.182	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	23.649	-	14.182	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**23.649**	**834**	**14.182**	**799**

Goodwill, amounting to 834 thousand Euro, arises from the line-by-line consolidation of the Polish subsidiary IFIS Finance Sp. Z o. o..

The above-mentioned goodwill was tested for impairment in accordance with IAS 36 (Impairment Test). To do so, goodwill was allocated to the cash-generating unit corresponding to the whole company IFIS Finance, as it represents an autonomous business segment which cannot be further broken down. The test was carried out by applying the value in use method based on the projection of expected cash flows for an explicit period of 5 years. Expected cash flows were discounted based on the company's estimated cost of capital calculated using the Capital Asset Pricing Model. Expected cash flows were estimated based on the most recently approved business plan and financial projections based on the subsidiary's average growth trends. The terminal value was calculated assuming that the last net cash flow in the explicit planning period is replicable. The impairment test did not reveal any impairment losses to be recognised in profit or loss.

Finally, goodwill underwent a sensitivity analysis based on the cost of capital, using a fluctuation range equal to 5%; the test carried out with the control method confirmed the reliability of the reported amount.

The change in the value of goodwill compared to the previous year is attributable to the impact of changes in year-end exchange rates.

Other intangible assets at 31 December 2017 refer exclusively to software purchase and development, amortised on a straight-line basis over the estimated useful life, which is 5 years from deployment.

13.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total 31.12.2017
		FINITE	INDEF	FINITE	INDEF	
A. Opening balance	**799**	**-**	**-**	**14.182**	**-**	**14.981**
A.1 Total net depreciation and impairment losses	-	-	-	-	-	**-**
A.2 Net opening balance	**799**	-	-	**14.182**	-	**14.981**
B. Increases	**35**	-	-	**16.219**	-	**16.254**
B.1 Purchases	-	-	-	16.219	-	16.219
of which: business combinations	-	-	-	-	-	-
B.2 Increases in internally generated intangible assets	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains:	-	-	-	-	-	-
- to equity	-	-	-	-	-	-
- to profit or loss	-	-	-	-	-	-
B.5 Exchange gains	35	-	-	-	-	35
B.6 Other changes	-	-	-	-	-	-
C. Reductions	**-**	**-**	**-**	**6.752**	**-**	**6.752**
C.1 Sales	-	-	-	2.016	-	2.016
C.2 Impairment losses and amortisation:	-	-	-	4.736	-	4.736
- Amortisation expense	-	-	-	4.736	-	4.736
- Impairment losses	-	-	-	-	-	-
+ equity	-	-	-	-	-	-
+ profit or loss	-	-	-	-	-	-
C.3 Fair value losses:	-	-	-	-	-	-
- to equity	-	-	-	-	-	-
- to profit or loss	-	-	-	-	-	-
C.4 Transfer to non-current assets under disposal	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	**834**	**-**	**-**	**23.649**	-	**24.483**
D.1 Total net amortisation, impairment losses and reversals of impairment losses	-	-	-	-	-	-
E. Gross closing balance	**834**	-	-	**23.649**	-	**24.483**
F. Measurement at cost	-	-	-	-	-	-

Key
Fin: finite useful life
Indef: indefinite useful life

Purchases refer exclusively to investments for the enhancement of IT systems.

Section 14 – Tax assets and liabilities – Item 140 of assets and 80 of liabilities

14.1 Deferred tax assets: breakdown

The main types of deferred tax assets are set out below.

Deferred tax assets	31.12.2017	31.12.2016
Loans to customers (Law 214/2011)	214.642	192.310
Past tax losses that can be carried forward	91.395	0
ACE - Aid for economic growth that can be carried forward	25.032	0
Differences from PPA	15.801	253.030
Loans to customers	3.095	42.978
Equipment rental	1.981	1.460
Provisions for risks and charges	11.588	1.209
Others	3.780	2.193
Total	**367.314**	**493.180**

Deferred tax assets totalled 367,3 million Euro and can be classified as follows: 214,6 million Euro in impairment losses on receivables that can be deducted in the following years, 91,4 million Euro in past tax losses that can be carried forward arising from the mergers of Interbanca and IFIS Factoring, 25 million Euro in ACE (Aid for Economic Growth) benefits that can be carried forward, and the remainder referred to mismatch arrangements—including the difference recognised at the time of the business combination for the subsidiary IFIS Leasing (15,8 million Euro), which will be reclassified with the merger in 2018. The sub-item Other includes temporary differences on various costs with deferred deductibility.

The 125,9 million Euro decline in deferred tax assets was essentially attributable to the reconciliation of the item Differences from PPA (receivables) following the merger of Interbanca.

Finally, please note that, pursuant to the current Tax Consolidation arrangements, deferred tax assets related to the taxable profit for the period were included in Other Assets as an approximately 54,1 million Euro Receivable due from La Scogliera.

14.2 Deferred tax liabilities: breakdown

The main types of deferred tax liabilities are shown below.

Deferred tax liabilities	31.12.2017	31.12.2016
Loans to customers	27.121	13.293
Property, plant and equipment	9.001	9.433
Available for sale securities	1.798	394
Others	679	1.314
Total	**38.599**	**24.434**

The item deferred tax liabilities included 23,6 million Euro in receivables for interest on arrears that will be taxed upon receipt, 9 million Euro in the revaluation of the property in Milan, and 3 million Euro in other mismatches of trade receivables.

14.3 Changes in deferred tax assets (recognised through profit or loss)

	31.12.2017	31.12.2016
1. Opening balance	**492.643**	**39.359**
2. Increases	**21.602**	**458.021**
2.1 Deferred tax assets recognised in the year	20.559	7.494
a) relative to previous years	814	30
b) due to change in accounting standards	-	-
c) reversals of impairment losses	-	-
d) other	19.745	7.464
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
Business combinations	1.043	450.527
3. Decreases	**147.349**	**4.737**
3.1 Deferred tax assets reversed during the year	137.031	4.737
a) reversals	137.031	4.737
b) impairment losses due to unrecoverability	-	-
c) change in accounting standards	-	-
d) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	10.318	-
a) conversion into tax credits as per Italian Law 214/2011	10.318	-
b) other	-	-
4. Closing balance	**366.896**	**492.643**

Concerning the changes in deferred tax assets (recognised through profit or losses), please note that:

- increases included approximately 1 million Euro in Deferred Tax Assets resulting from the inclusion of the company TWO Solar Park in the scope of consolidation

- the Deferred Tax Assets related to the taxable profit for the period were not included, as they were included in other assets as an approximately 54,1 million Euro Receivable due from the Parent/Consolidating Company La Scogliera under current tax consolidation arrangements.

14.3.1 Changes in deferred tax assets as per Italian Law 214/2011 (recognised through profit or loss)

	31.12.2017	31.12.2016
1. Opening balance	**191.417**	**-**
2. Increases	**37.091**	**191.417**
2.1 Other changes	37.091	191.417
3. Decreases	**13.852**	**-**
3.1 Reclassifications	3.534	-
3.2 Conversion in tax credits	10.318	-
a) deriving from losses for the year	9.242	-
b) deriving from tax losses	1.076	-
3.3 Other reductions	-	-
4. Closing balance	**214.656**	**191.417**

14.4 Changes in deferred tax liabilities (recognised through profit or loss)

	31.12.2017	31.12.2016
1. Opening balance	**23.219**	**15.643**
2. Increases	**18.095**	**9.561**
2.1 Deferred tax liabilities recognised in the year	18.035	99
a) relative to previous years	9.679	-
b) due to change in accounting standards	-	-
c) other	8.338	99
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	78	-
Business combinations	-	9.462
3. Decreases	**4.514**	**1.985**
3.1 Deferred tax liabilities reversed during the year	4.514	695
a) reversals	4.435	694
b) due to change in accounting standards	-	-
c) other	79	1
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	1.290
4. Closing balance	**36.800**	**23.219**

14.5 Changes in deferred tax assets (recognised through equity)

	31.12.2017	31.12.2016
1. Opening balance	**537**	**63**
2. Increases	**-**	**584**
2.1 Deferred tax assets recognised in the year	-	104
a) relative to previous years	-	-
b) due to change in accounting standards	-	-
c) other	-	104
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
Business combinations	-	480
3. Decreases	**119**	**110**
3.1 Deferred tax assets reversed during the year	119	110
a) reversals	98	110
b) impairment losses due to unrecoverability	-	-
c) due to change in accounting standards	-	-
d) other	21	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Closing balance	**418**	**537**

14.6 Changes in deferred tax liabilities (recognised through equity)

	31.12.2017	31.12.2016
1. Opening balance	**1.215**	**5.753**
2. Increases	**662**	**835**
2.1 Deferred tax liabilities recognised in the year	662	268
a) relative to previous years	-	17
b) due to change in accounting standards	-	-
c) other	662	251
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
Business combinations	-	567
3. Decreases	**78**	**5.373**
3.1 Deferred tax liabilities reversed during the year	-	5.373
a) reversals	-	5.373
b) due to change in accounting standards	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	78	-
4. Closing balance	**1.799**	**1.215**

Section 16 - Other assets – Item 160

16.1 Other assets: breakdown

	31.12.2017	31.12.2016 RESTATED
Receivables due from tax authorities	48.966	57.737
Prepayments and accrued income	59.609	39.905
Guarantee deposits	1.480	1.211
Other items	162.922	160.490
Total	**272.977**	**259.343**

Receivables due from tax authorities included 5,7 million Euro in receivables for payments on account for the virtual stamp duty, 9,9 million Euro in funds placed in an escrow account pending the resolution of a tax dispute, and 24,5 million Euro in VAT credits arising from the group settlement for the year 2017 and that can be carried forward to the following year.

Other items included 107,7 million Euro in receivables due from the parent La Scogliera S.p.A., including 54,1 million Euro related to the taxable profit for the year transferred to the Consolidating Company under the tax consolidation regime and 53,6 million Euro in relevant corporate income (IRES) tax credits claimed by the latter for excess tax payments from prior years.
Finally, the line item prepayments and accrued income included 38,3 million Euro in deferred costs associated with the NPL Area's judicial debt collection proceedings pending a garnishment order from the judge.

LIABILITIES

Section 1 – Due to banks - Item 10

1.1 Due to banks: breakdown by type

Type of operation/Components of group	31.12.2017	31.12.2016
1. Due to Central banks	**699.585**	**1.179**
2. Due to banks	**92.392**	**502.785**
2.1 Current accounts and on demand deposits	20.778	55.480
2.2 Term deposits	38.205	396.419
2.3 Loans	33.409	50.886
2.3.1 Repurchase agreements	-	50.886
2.3.2 Other	33.409	-
2.4 Debt from buyback commitments on treasury equity instruments	-	-
2.5 Other payables	-	-
Total	**791.977**	**503.964**
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	791.977	503.964
Total fair value	**791.977**	**503.964**

Payables due to banks rose essentially because of the 700,0 million Euro (par value) TLTRO tranche obtained in March 2017. Term deposits at other banks declined by a similar amount.

The fair value of payables due to banks is in line with the relevant carrying amount, considering the fact that interbank deposits are short- or very short-term.

Section 2 – Due to customers – Item 20

2.1 Due to customers: breakdown by type

Type of operation/Components of group	31.12.2017	31.12.2016
1. Current accounts and on demand deposits	1.174.477	931.879
2. Term deposits	4.106.828	3.824.401
3. Loans	3.607	275.987
3.1 repurchase agreements	-	270.314
3.2 other	3.607	5.673
4. Debt from buyback commitments on treasury equity instruments	-	-
5. Other payables	8.276	12.869
Total	**5.293.188**	**5.045.136**
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	5.294.394	5.065.578
Total fair value	**5.294.394**	**5.065.578**

Current accounts and on demand deposits at 31 December 2017 included funding from the on demand rendimax savings account and the contomax online current account, amounting to 916,5 million and 29,8 million Euro, respectively; term deposits represent funding from fixed-term rendimax and contomax accounts and time deposits.

The repurchase agreements outstanding at 31 December 2016 entered into with Cassa di Compensazione e Garanzia as counterparty and government bonds as the underlying assets were settled during 2017.

It should be noted that the Bank does not carry out "term structured repo" transactions.

Other loans referred to payables for finance leases; these are recognised using the financial method set out in IAS 17, as detailed in paragraph 2.5 below.

Other payables referred largely to payables to sellers of tax or non-performing receivables portfolios with deferred price settlement.

2.5 Payables for finance leases

	31.12.2017	31.12.2016
Payables for finance leases	3.607	3.802

The payables described above relate for 3,6 million Euro to the real estate lease the former company Toscana Finanza SpA entered into in 2009 for the property located in Florence, which housed the headquarters of the NPL Area until August 2016. The term of the lease entered into with Centro Leasing S.p.A. is 18 years (from 01.03.2009 to 01.03.2027) and provides for the payment of 216 monthly instalments of 28.490 Euro, including the principal, interest and an option to buy the asset at the end of the lease for 1.876.800 Euro. The property will soon be converted into the head office of the NPL Area.

Section 3 – Debt securities issued – Item 30

3.1 Debt securities issued: breakdown by type

Securities	31.12.2017				31.12.2016			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	1.639.414	88.768	712.400	849.729	1.487.831	83.173	-	1.404.609
1.1 structured bonds	-	-	-	-	-	-	-	-
1.2 other bonds	1.639.414	88.768	712.400	849.729	1.487.831	83.173	-	1.404.609
2. Other securities	580	-	-	580	725	-	-	725
2.1 structured securities	-	-	-	-	-	-	-	-
2.2 other	580	-	-	580	725	-	-	725
Total	**1.639.994**	**88.768**	**712.400**	**850.309**	**1.488.556**	**83.173**	**-**	**1.405.334**

Debt securities issued included the principal and interest amounts of the 300,9 million Euro senior bond that Banca IFIS issued in the first half of 2017 as well as the 401,5 million Euro Tier 2 bond issued in mid-October 2017.

Debt securities issued included also 87,0 million Euro in bond loans and 580 thousand Euro in certificates of deposits issued by the merged entity Interbanca S.p.a., as well as 850,0 million Euro in notes issued by the special purpose vehicles as part of the securitisation launched at the end of 2016. These resulted from the consolidation of the vehicle, which was intended to represent the overall transaction more fairly.

3.2 Breakdown of item 30 "Debt securities issued": subordinated bonds

The line item "Debt securities issued" included 401,5 million Euro in subordinated bonds.

Section 4 – Financial liabilities held for trading - item 40

4.1 Financial liabilities held for trading: breakdown by type

Type / Amounts	31.12.2017					31.12.2016				
	NV	FV			FV *	NV	FV			FV *
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-		-	-	-	-	
3.1 Bonds	-	-	-	-		-	-	-	-	
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-		-	-	-	-	
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial derivatives		-	**38.171**	-			-	**46.447**	**2.031**	
1.1 For trading	X	-	38.171	-	X	X	-	46.447	2.031	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives		-	-	-			-	-	-	
2.1 For trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B		-	**38.171**	-			-	**46.447**	**2.031**	
Total (A+B)	X	-	**38.171**	-	X	X	-	**46.447**	**2.031**	X

Key
FV= fair value
FV* = Fair value calculated excluding changes in value due to changes in the issuer's creditworthiness compared to the date of issuance.
NV = Nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3

Concerning level 2 liabilities held for trading, see the comments in section 2 under assets.

Level 3 liabilities in the previous year referred to cross currency swaps with other banks.

Section 8 – Tax liabilities – Item 80

See section 14 under assets.

Section 10 - Other liabilities - Item 100

10.1 Other liabilities: breakdown

	31.12.2017	31.12.2016
Due to suppliers	59.756	58.878
Due to personnel	9.331	22.105
Due to the Tax Office and Social Security agencies	14.804	17.934
Sums available to customers	33.022	13.375
Accrued expenses and deferred income	12.546	12.082
Other payables	239.084	212.951
Total	**368.543**	**337.325**

Payables due to personnel included the bonuses for the Top Management, including those for the previous years, subject to deferred payment, as well as payables for unused annual leave.

Other payables included approximately 140 million Euro in amounts due to customers that have not yet been credited, 22 million Euro in outgoing wire transfers not yet settled, and 15,6 million Euro in impairment losses on guarantees granted.

Section 11 - Post-employment benefits - Item 110

11.1 Post-employment benefits: annual changes

	31.12.2017	31.12.2016
A. Opening balance	**7.660**	**1.453**
B. Increases	**263**	**6.546**
B.1 Allocations for the year	65	195
B.2 Other changes	198	57
Business combinations	-	6.294
C. Reductions	**373**	**339**
C.1 Payments made	97	131
C.2 Other changes	276	208
D. Closing balance	**7.550**	**7.660**
Total	**7.550**	**7.660**

Payments made represent the benefits paid to employees during the year.

Other decreases include the impact of the discounting of benefits earned up to 31 December 2006 and still held in the company, which, based on the changes introduced by the new IAS 19, are recognised through equity.

Pursuant to the requirements of the ESMA in the document *"European common enforcement priorities for 2012 financial statements"* of 12 November 2012, the discount rate used was the interest rate based on the market yield of a benchmark of AA-rated European corporate bonds with maturity over 10 years. The same interest rate was used to discount the obligations at 31 December 2016.

11.2 Other information

Under IASs/IFRSs, a company's liabilities regarding benefits that will be paid to employees at the conclusion of the employer/employee relationship (post-employment benefits) should be recognised based on actuarial calculations of the amount that will be paid at maturity.

Specifically, these allocations must take into account the amount already earned over the period at the reporting date, projecting it into the future in order to calculate the amount that will be paid at the conclusion of the employer/employee relationship. This amount must then be discounted to take into account the time that will pass until payment.

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

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

In particular:

- benefits earned as from 1 January 2007 constitute a defined-contribution plan, regardless of whether the employee has chosen to allocate them to a supplementary pension fund or to INPS's Treasury Fund. Those benefits shall be calculated according to contributions due without applying actuarial methods;

- benefits earned up to 31 December 2006 continue to be considered as a defined-benefit plan, and as such are calculated on an actuarial basis which, however, unlike the calculation method applied until 31 December 2006, no longer requires that the benefits be proportionally attributed to the period of service rendered: the employee's service is considered entirely accrued due to the change in the accounting nature of benefits earned as from 1 January 2007.

Section 12 – Provision for risks and charges - Item 120

12.1 Provisions for risks and charges: breakdown

Items/Components	31.12.2017	31.12.2016
1 Provisions for pensions	-	-
2. Other provisions for risks and charges	21.641	24.318
2.1 legal disputes	15.463	9.577
2.2 personnel expenses:	1.604	3.687
2.3 other	4.574	11.054
Total	**21.641**	**24.318**

12.2 Provisions for risks and charges: annual changes

Items/Components	31.12.2017	
	Provisions for pensions	Other provisions
A. Opening balance	**-**	**24.318**
B. Increases	**-**	**9.013**
B.1 Allocations for the year	-	8.613
B.2 Changes due to the passage of time	-	-
B.3 Changes due to changes in the discount rate	-	-
B.4 Other changes	-	-
Business combinations	-	400
C. Reductions	-	**11.690**
C.1 Used during the year	-	8.315
C.2 Changes due to changes in the discount rate	-	-
C.3 Other changes	-	3.375
D. Closing balance	**-**	**21.641**

12.4 Provisions for risks and charges – Other provisions

Here below is the breakdown of the provision for risks and charges at the end of the year by type of dispute compared with the prior year. For the sake of clarity, the provisions deriving from the acquisition of the former GE Capital Interbanca Group are reported separately.

Legal disputes

Banca IFIS legal disputes

The provision outstanding at 31 December 2017, amounting to 7,2 million Euro, included 7,1 million Euro for 22 disputes concerning the Trade Receivables segment (the plaintiffs seek 25,8 million Euro in damages), and 74 thousand Euro for 7 disputes concerning the NPL Area segment (the plaintiffs seek 147 thousand Euro in damages).

Former GE Capital Interbanca Group legal disputes

The provision outstanding at 31 December 2017, amounting to 8,3 million Euro, included 4,8 million Euro for 35 disputes involving IFIS Factoring and IFIS Rental, and 3,5 million Euro for 9 disputes involving the former Interbanca (the plaintiffs seek 50,5 million Euro in damages).

Other provisions

Other Banca IFIS provisions

There were no other provisions outstanding at 31 December 2017.
The provision at 31 December 2016, totalling 2,5 million Euro, referred to the amount set aside for commissions paid in early 2017 in order to buy back the senior tranche of the leasing securitisation (eligible securities).

Other former GE Capital Interbanca Group provisions

The provision outstanding at 31 December 2017, amounting to 6,2 million Euro, included 1,6 million Euro in personnel-related expenses and 4,6 million Euro in other provisions, including 3,3 million Euro for customer allowances and 0,6 million Euro as provision for risks on unfunded commitments.

Contingent liabilities

Here below are the most significant contingent liabilities outstanding at 31 December 2017. Based on the opinion of the legal advisers assisting the subsidiaries, they are considered possible, and therefore they are only disclosed.

For the sake of clarity, the contingent liabilities deriving from the acquisition of the former GE Capital Interbanca Group are reported separately.

Legal disputes

Banca IFIS legal disputes

Banca IFIS recognises contingent liabilities amounting to 2,0 million Euro in claims, represented by 14 disputes: 13 refer to disputes concerning the Trade Receivables segment, for a total of 1,9 million Euro, and 1 to a labour dispute, for 54 thousand Euro. Banca IFIS, supported by the legal opinion of its lawyers, made no provisions for these positions, as the risk of defeat is considered possible.

Former GE Capital Interbanca Group legal disputes

Here below are the most significant contingent liabilities of the former GE Capital Interbanca Group.

Lawsuit against Interbanca to cancel a settlement

A lawsuit was filed against the former Interbanca in 2010 concerning a position for which the company had entered into a settlement agreement with the Receiver appointed at the time for the extraordinary administration proceedings involving a debtor of Interbanca. The new Receiver questioned the validity of the agreement, seeking 168 million Euro in damages from the former Interbanca, among others. During the dispute, some defendants made various demands to the former Interbanca.

The Court deemed the settlement agreement valid and enforceable, dismissing all claims of the Plaintiffs against the former Interbanca. In the first-instance trial of the defendants and the former Interbanca for the remaining claims, whose outcome is still pending, the court-appointed expert witness is preparing his report and has concluded that the three debtors have suffered no damages. The Plaintiffs, not satisfied with the expert witness report, filed a motion to strike/supplement it, but the Court dismissed said motion and ordered only some additional technical analyses. The next hearing is scheduled for 10 April 2018.

The plaintiffs appealed against the first-instance ruling in favour of the Company, but the Appeals Court upheld the decision with a ruling that is now final.

Legal proceedings concerning a lawsuit for damages resulting from an extraordinary operation involving an industrial company as well as environmental damage

In early 2012, the officials of an extraordinary administration proceeding involving a chemical company in which the former Interbanca indirectly held a stake between 1999 and 2004 filed a lawsuit for damages. The lawsuit was filed against the former Interbanca and three former employees to ascertain their alleged joint responsibility and sentence them to pay for the damages allegedly incurred by the creditors because of a spin-off, initially estimated to be at least 388 million Euro. In 2013, the former Interbanca was also sued for causing approximately 3,5 billion Euro in environmental damage. Italy’s Ministry of the Environment and the Protection of the Territory and the Sea as well as the Ministry of Economy and Finance joined the proceedings to support the plaintiff's claims. On 10 February 2016, the Court of Milan dismissed the request to join the proceedings filed by said Ministries as inadmissible as well as dismissed all claims for damages filed by the plaintiff against Interbanca and its former employees.

In March 2016, the Ministries and the plaintiff filed an appeal. In November 2016, the former Interbanca and its former employees entered into separate settlement agreement with the plaintiff, which withdrew the lawsuit. The proceeding with the Ministries continues. The case has been adjourned to 20 June 2018.

On 28 July 2015, the Ministry of the Environment and the Protection of the Territory and the Sea served the former Interbanca with an order requiring it and the other recipients effective immediately to take all actions necessary to control, limit, remove or otherwise manage any factor that could potentially cause damage at the three industrial plants operated by the company. On 21 March 2016, the Regional Administrative Court upheld the former Interbanca's appeal and cancelled the order. On 15 July 2016, the Ministry of the Environment and the Protection of the Territory and the Sea appealed against the decision. A hearing has been scheduled for 14 June 2018.

Tax dispute

Banca IFIS tax dispute

On 23 December 2016, Banca IFIS received a VAT verification notice totalling 105 thousand Euro, without assessing any penalties and interest. Banca IFIS, supported by its tax advisers, decided to file an appeal and considered the risk of defeat possible, but not probable: therefore, it did not allocate funds to the provision for risks and charges.

Former GE Capital Interbanca Group tax disputes

Dispute concerning withholding taxes on interest paid in Hungary. Companies involved: former Interbanca Spa (now merged into Banca IFIS Spa) and IFIS Leasing Spa (including the merged entity GE Leasing Italia Spa)

The Italian Revenue Agency contested the failure to pay the 27% withholding tax on the interest paid to the Hungarian company GE Hungary Kft without any withholding tax pursuant to the International Convention between Italy and Hungary for the avoidance of double taxation. The Italian Revenue Agency determined that the Hungarian entity GE Hungary Kft was not the actual beneficiary of the interest paid by the Italian firms, but only a conduit company.

According to the Italian Revenue Agency, the beneficiary is a company allegedly incorporated in Bermuda, therefore the International Convention between Italy and Hungary for the avoidance of double taxation does not apply. Entities in tax havens are subject to a 27% withholding tax.

Therefore, for the years between 2007 and 2012, the Italian Revenue Agency assessed approximately 72,5 and 44,6 million Euro in additional withholding taxes against the merged entity Interbanca Spa and IFIS Leasing Spa, respectively, as well as administrative penalties amounting to 150/250%.

The Companies involved filed an appeal against the verification notices pursuant to the law with the competent Tax Commissions, paying 1/3 of the tax as provisional enrolment on the tax register.

Following the exchange of information pursuant to Council Directive EU/2011/16, Hungary's tax authority concluded that the company GE Hungary Kft must be legitimately considered the beneficiary of the interest received from the Italian counterparties”.

So far, all rulings issued by the competent Provincial Tax Commissions (Turin and Milan) have fully upheld the appeals. As expected, the Italian Revenue Agency has appealed against these decisions.

Banca IFIS, supported by its tax advisers, decided to file an appeal and considered the risk of defeat possible, but not probable: therefore, it did not allocate funds to the provision for risks and charges.

Dispute concerning the write-off of receivables

Company involved: IFIS Leasing Spa

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 2012 to losses on receivables—without any actual evidence.

For the years 2004/2012, the Agency assessed 818 thousand Euro in additional taxes and administrative penalties amounting to 100%.

Banca IFIS, supported by its tax advisers, decided to file an appeal and considered the risk of defeat possible, but not probable: therefore, it did not allocate funds to the provision for risks and charges.

Dispute concerning the VAT treatment of insurance mediation activities

Company involved IFIS Leasing Spa

The Italian Revenue Agency challenged the failure to apply the pro-rata mechanism in the years between 2007 and 2010 concerning the VAT deduction for passive transactions in exchange for VAT-exempt commissions received from insurance companies for insurance brokerage operations considered as independent from, and not ancillary to, the core vehicle leasing business (which is subject to VAT).

For the years 2007/2010, the Agency assessed 3 million Euro in additional VAT and administrative penalties amounting to 125%.

Banca IFIS, supported by its tax advisers, decided to file an appeal and considered the risk of defeat possible, but not probable: 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 (GE Capital International Limited) made a series of representations and warranties related to the former 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.

Section 15 – Equity attributable to owners of the parent company – Items 140, 160, 170, 180, 190, 200 and 220

15.1 Share capital and treasury shares: breakdown

Item		31.12.2017	31.12.2016
190	Share capital (in thousands of Euro)	53.811	53.811
	Number of ordinary shares	53.811.095	53.811.095
	Nominal amount of ordinary shares	1 Euro	1 Euro
200	Treasury shares (in thousands of Euro)	3.168	3.187
	Number of treasury shares	377.829	380.151

15.2 Share capital - number of parent company shares: annual changes

Headings/Types	Ordinary	Others
A. Shares held at the beginning of the year	**53.811.095**	-
- fully paid-up	53.811.095	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	(380.151)	-
A.2 Outstanding shares: opening balance	**53.430.944**	-
B. Increases	**2.322**	-
B.1 New issues	-	-
- paid:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- free:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	2.322	-
C. Reductions	-	-
C.1 Annulments	-	-
C.2 Buybacks of treasury shares	-	-
C.3 Company sell-offs	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing balance	**53.433.266**	-
D.1 Treasury shares (+)	377.829	-
D.2 Shares held at the end of the year	53.811.095	-
- fully paid-up	53.811.095	-
- not fully paid-up	-	-

15.3 Share capital: other information

The share capital is composed of 53.811.095 ordinary shares with a nominal value of 1 Euro each, bearing no rights, liens and obligations, including those relating to dividend distribution and capital redemption.

15.4 Profit reserves: other information

Items/Components	31.12.2017	31.12.2016
Legal reserve	10.762	10.762
Extraordinary reserve	385.863	357.955
Other reserves	636.116	9.685
Total profit reserves	**1.032.741**	**378.402**
Buyback reserve	3.168	3.187
Future buyback reserve	-	-
Other reserves	2.246	2.246
Total item 170 reserves	**1.038.155**	**383.835**

Pursuant to art. 1, paragraph 145 of the 2014 Budget law (Law no. 147 of 27 December 2013), the Bank realigned the difference between the tax base and carrying amount of property, plant and equipment recognised at 31 December 2012 and still held at 31 December 2013. The amount corresponding to the higher values following the realignment, net of the substitute tax, generated a 7,4 million Euro untaxed reserve.

In addition, following the merger of Interbanca S.p.A. into Banca IFIS, Article 172 paragraph 5 of the Consolidated Law on Income Tax requires the surviving entity to restore the merging entity's deferred tax reserves as follows:

- 4,6 million Euro special reserve as per Article 15 paragraph 10 of Italian Law no. 516 of 7/8/82
- 2,3 million Euro revaluation reserve as per Italian Law 408/90

Finally, there were an additional 20,7 million Euro in deferred tax reserves recognised by Banca IFIS and arising from the merger of Interbanca, in accordance with Italian laws no. 576/75, no. 83/72, and no. 408/90, that had been previously recognised by the latter.

Other information

1. Commitments and guarantees granted

Operations	31.12.2017	31.12.2016
1) Financial guarantees	320.300	191.585
a) Banks	18	11
b) Customers	320.282	191.574
2) Commercial guarantees	40	-
a) Banks	-	-
b) Customers	40	-
3) Irrevocable commitment to grant funds	152.021	225.585
a) Banks	-	-
i) certain use	-	-
ii) uncertain use	-	-
b) Customers	152.021	225.585
i) certain use	52.027	77.883
ii) uncertain use	99.994	147.702
4) Commitments underlying credit derivatives: sale of protection	-	-
5) Assets used as collateral by third parties	-	-
6) Other commitments	10.850	145.290
Total	**483.211**	**562.460**

Financial guarantees granted to customers essentially refer to guarantees granted in favour of invoice sellers for collected tax receivables.

Other commitments refer to unused bank overdraft facilities on customers' current accounts.

2. Assets used as collateral for own liabilities and commitments

Portfolios	31.12.2017	31.12.2016
1. Financial assets held for trading	-	-
2. Financial assets at fair value	-	-
3. Available for sale financial assets	427.833	30.117
4. Held to maturity financial assets	-	-
5. Due from banks	53.637	-
6. Loans to customers	-	-
7. Property, plant and equipment	-	-

Available for sale financial assets refer to government bonds pledged as collateral in the refinancing operation with the Eurosystem.

5. Administration and mediation on behalf of third parties

Type of services	Amounts
1. Execution of orders on behalf of clients	**-**
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Portfolio management:	**-**
a) individual	-
b) collective	-
3. Safekeeping and administration of securities	**3.358.955**
a) third party securities in custody: associated with depositary bank	-
services (excluding portfolio management)	
1. securities issued by consolidated companies	-
2. other securities	-
b) other third party securities in custody (excluding portfolio management): other	1.044.868
1. securities issued by consolidated companies	-
2. other securities	1.044.868
c) third party securities held with third parties	*1.044.868*
d) own securities held with third parties	2.314.087
4. Other transactions	**-**

Part C – Consolidated income statement

Section 1 – Interest - Items 10 and 20

1.1 Interest receivable and similar income: breakdown

	Items/Types	Debt securities	Loans	Other transactions	31.12.2017	31.12.2016
1	Financial assets held for trading	-	-	-	-	-
2	Financial assets at fair value	-	-	-	-	-
3	Available for sale financial assets	6.564	-	-	6.564	11.083
4	Held to maturity financial assets	-	-	-	-	-
5	Due from banks	-	2.411	86	2.497	463
6	Loans to customers	1.047	519.698	19.267	540.012	313.799
7	Hedging derivatives	X	X	-	-	-
8	Other assets	X	X	426	426	93
	Total	**7.611**	**522.109**	**19.779**	**549.499**	**325.438**

The increase in interest on loans to customers is largely attributable to the consolidation of the former Interbanca Group over the entire 12 months as well as 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 merged entity Interbanca and IFIS Leasing over time.

1.3 Interest receivable and similar income: other information

1.3.1 Interest income on foreign currency financial assets

	31.12.2017	31.12.2016
Interest income on foreign currency financial assets	7.704	10.324

1.3.2 Interest income on finance leases

	31.12.2017	31.12.2016
Interest income on finance leases	52.254	3.039

1.4 Interest due and similar expenses: breakdown

	Items/Types	Payables	Securities	Other transactions	31.12.2017	31.12.2016
1	Due to Central banks	(5.381)	X	-	(5.381)	(1.901)
2	Due to banks	(2.666)	X	-	(2.666)	(1.467)
3	Due to customers	(74.998)	X	(3)	(75.001)	(50.128)
4	Debt securities issued	X	(24.000)	-	(24.000)	(3.439)
5	Financial liabilities held for trading	-	-	-	-	-
6	Financial liabilities at fair value	-	-	-	-	-
7	Other liabilities and provisions	X	X	-	-	(320)
8	Hedging derivatives	X	X	-	-	-
	Total	**(83.045)**	**(24.000)**	**(3)**	**(107.048)**	**(57.255)**

At 31 December 2017, interest expense on payables due to customers related to the "payables" category included 72,4 million Euro in retail funding—deriving mainly from the Rendimax savings account and the Contomax current account.

Interest expense on outstanding securities included 9,7 million Euro in funding costs for the securitisations carried out in late 2016, as detailed in Part E of these Notes.

1.6 Interest due and similar expenses: other information

1.6.1 Interest expense on foreign currency liabilities

	31.12.2017	31.12.2016
Interest expense on foreign currency liabilities	(422)	(293)

1.6.2 Interest expense on liabilities for finance leases

	31.12.2017	31.12.2016
Interest expense on liabilities for finance leases	(3)	(64)

Section 2 – Commissions - Items 40 and 50

2.1 Commission income: breakdown

Service type/Amounts	31.12.2017	31.12.2016
a) guarantees granted	1.951	38
b) derivatives on loans	-	-
c) management, mediation and consultancy services:	7.582	558
1. trading in financial instruments	-	-
2. trading in currencies	-	-
3. asset management	599	359
3.1. individual	599	359
3.2. collective	-	-
4. safe custody and management of securities	-	-
5. depository bank	-	-
6. placement of securities	-	-
7. order collection and transmission	-	-
8. consultancy	-	-
8.1 on investments	-	-
8.2 on financial structure	-	-
9. third-party services	6.983	199
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	199
9.3. Other products	6.983	-
d) collection and payment services	728	987
e) servicing for securitisation transactions	1.984	165
f) services for factoring transactions	54.336	53.565
g) tax collection and payment	-	-
h) management of multi-lateral trading systems	-	-
i) current account holding and management	783	1.129
j) other services	19.533	2.964
Total	**86.897**	**59.406**

2.2 Commission expense: breakdown

Services/Amounts	31.12.2017	31.12.2016
a) guarantees received	(756)	(202)
b) derivatives on loans	-	-
c) management, mediation and consultancy services:	(95)	(96)
1. trading in financial instruments	-	-
2. trading in currencies	(1)	-
3. asset management:	-	-
3.1 own assets	-	-
3.2 delegated by third parties	-	-
4. safe custody and management of securities	(94)	(96)
5. placement of financial instruments	-	-
6. out-of-office canvassing of financial instruments, services and products	-	-
d) collection and payment services	(3.043)	(2.956)
e) other services	(9.238)	(15.041)
Total	**(13.132)**	**(18.295)**

The line item includes commissions arising from approved banks' brokering, the work of other credit brokers, and commissions paid to correspondent factors.

At the end of 2016, other services included 12,5 million Euro in up-front commissions for the factoring, leasing, and lending securitisations carried out in December 2016.

Section 3 – Dividends and similar income - Item 70

Transactions/Types		31.12.2017		31.12.2016	
		Dividends	Income from UCITS units	Dividends	Income from UCITS units
A.	Financial assets held for trading	-	-	-	-
B.	Available for sale financial assets	48	-	-	-
C.	Financial assets at fair value	-	-	-	-
D.	Equity investments	-	X	-	X
	Total	**48**	**-**	**-**	**-**

Section 4 – Net profit (loss) from trading - Item 80

4.1 Net profit (loss) from trading: breakdown

Items / Returns	Capital gains (A)	Profit from trading (B)	Capital losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	**(5.049)**
4. Derivative instruments	**24.944**	**15.672**	**(8.469)**	**(15.849)**	**16.298**
4.1 Financial derivatives:	24.944	15.672	(8.469)	(15.849)	16.298
- On debt securities and interest rates	24.944	15.672	(8.469)	(15.849)	16.298
- On equity instruments and share indexes	-	-	-	-	-
- On currencies and gold	X	X	X	X	-
- Other	-	-	-	-	-
4.2 Derivatives on loans	-	-	-	-	-
Total	**24.944**	**15.672**	**(8.469)**	**(15.849)**	**11.249**

Section 6 – Profit (loss) from sale or buyback - Item 100

6.1 Profit (loss) from sale or buyback: breakdown

Items/Returns	31.12.2017			31.12.2016		
	Profit	Losses	Net result	Profit	Losses	Net result
Financial assets						
1. Due from banks	-	-	-	-	-	-
2. Loans to customers	19.020	(4)	19.016	44.809	(280)	44.529
3. Available for sale financial assets	7.571	(992)	6.579	8.643	(3.165)	5.478
3.1 Debt securities	7.571	(428)	7.143	8.643	(3.165)	5.478
3.2 Equity instruments	-	(564)	(564)	-	-	-
3.3 UCITS units	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Held to maturity financial assets	-	-	-	-	-	-
Total assets	**26.591**	**(996)**	**25.595**	**53.452**	**(3.445)**	**50.007**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**

The gains on the sale of loans to customers were achieved by selling portfolios of receivables of the NPL Area segment, as commented under Contribution of business segments in the Directors' Report.

The gains on the sale of debt securities refer to the sale of government and bank bonds carried out during the year.

Section 8 – Net impairment losses/reversals - Item 130

8.1 Net impairment losses on receivables: breakdown

Items/ returns	Impairment losses (1)			Reversals of impairment losses (2)				Total 31.12.2017	Total 31.12.2016
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Others		A	B	A	B		
A. Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-
- loans	-	-	-	-	-	-	-	-	-
- debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers	**(52.974)**	**(77.369)**	**(8.699)**	**14.571**	**56.863**	**2.365**	**13.398**	**(51.845)**	**(54.882)**
Acquired non-performing loans	-	-	-	-	9.119	-	-	9.119	(34.358)
- loans	-	-	X	-	9.119	X	X	9.119	(34.358)
- debt securities	-	-	X	-	-	X	X	-	-
Other receivables	(52.974)	(77.369)	(8.699)	14.571	47.744	2.365	13.398	(60.964)	(20.524)
- loans	(52.974)	(75.654)	(8.699)	14.571	47.744	2.365	13.398	(59.249)	(20.524)
- debt securities	-	(1.715)	-	-	-	-	-	(1.715)	-
C. Total	**(52.974)**	**(77.369)**	**(8.699)**	**14.571**	**56.863**	**2.365**	**13.398**	**(51.845)**	**(54.882)**

Key
A= from interest
B= other reversals

Net impairment losses on receivables referred for 33,6 million Euro to Trade Receivables, 33,5 million Euro to the NPL Area, 8,0 million Euro to the Leasing sector, and 0,3 million Euro to Tax Receivables; meanwhile, the Corporate Banking segment reported 23,3 million Euro in net reversals of impairment losses on receivables deriving specifically from some individually significant positions; similarly, the Governance and Services segment reported 0,3 million Euro in net reversals of impairment losses.

As for impairment losses on NPL receivables, they referred to positions for which trigger events occurred, causing the position to become impaired under the adopted measurement model and the relevant accounting policy, as detailed in Contribution of business segments in the Directors' Report.

The impairment losses and reversals include the 'time value' effect deriving from the process of discounting expected future cash flows.

8.2 Net impairment losses on available for sale financial assets: breakdown

Items/ Returns	Impairment losses (1)		Reversals of impairment losses (2)		Total 31.12.2017	Total 31.12.2016
	Specific		Specific			
	Write-offs	Others	A	B		
A. Debt securities	-	(571)	-	-	(571)	-
B. Equity instruments	-	(1.470)	X	X	(1.470)	(4.356)
C. UCITS units	-	-	X	-	-	-
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**(2.041)**	**-**	**-**	**(2.041)**	**(4.356)**

Key
A= from interest
B= other reversals

Net impairment losses on available for sale financial assets referred to impairment losses recognised on unlisted instruments that were found to be impaired.

8.4 Net impairment losses on other financial transactions: breakdown

Items / Returns	Impairment losses/reversals			Reversals				Total 31.12.2017	Total 31.12.2016
	Specific		Portfo-lio	Specific		Portfolio			
	Write-offs	Others		A	B	A	B		
A. Guarantees granted	-	(12)	-	-	5.326	-	291	5.605	5
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Loan commitments	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
E. Total	**-**	**(12)**	**-**	**-**	**5.326**	**-**	**291**	**5.605**	**5**

Key
A= from interest
B= other reversals

Section 11 – Administrative expenses – Item 180

11.1 Personnel expenses: breakdown

Type of expense/Sectors	31.12.2017	31.12.2016
1) Employees	**(93.756)**	**(61.880)**
a) salaries and wages	(67.575)	(41.144)
b) social security contributions	(17.933)	(11.313)
c) post-employment benefits	-	(2.047)
d) pension expense	(116)	(9)
e) allocations for post-employment benefits	(4.426)	(195)
f) allocations to pensions and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments made to supplementary external funds:	(318)	(48)
- defined contribution plans	(318)	(48)
- defined benefit plans	-	-
h) costs arising from share-based payment agreements	-	-
i) other employee benefits	(3.388)	(7.124)
2) Other serving employees	(153)	(123)
3) Directors and Statutory Auditors	(4.378)	(3.993)
4) Retired personnel	-	-
5) Reimbursements of seconded staff expenses	59	127
6) Reimbursements of third-party seconded staff expenses	(23)	(9)
Total	**(98.251)**	**(65.878)**

Personnel expenses were up 49,1%. At the end of 2017, the Group's employees numbered 1.470, rising 11,1% from 1.323 at 31 December 2016.

Post-employment benefits include both contributions that employees have chosen to leave in the company and to be paid to INPS's Treasury Fund, and contributions to be paid to supplementary pension funds. Allocations for post-employment benefits refer to the revaluation of post-employment benefits earned up to 31 December 2006 and left in the company.

Other employee benefits included training and refresher courses.

11.2 Average number of employees by category

Employees:	31.12.2017	31.12.2016
Employees:	**1.396,5**	**1.023,5**
(a) senior managers	59,0	43,5
(b) middle managers	421,5	275,0
(c) remaining personnel	916,0	705,0
Other personnel	**-**	**-**

11.5 Other administrative expenses: breakdown

Type of expense/Amounts	31.12.2017	31.12.2016
Expenses for professional services	**(48.001)**	**(56.995)**
Legal and consulting services	(30.085)	(25.511)
Auditing	(453)	(428)
Outsourced services	(17.463)	(31.056)
Direct and indirect taxes	**(27.422)**	**(14.882)**
Expenses for purchasing goods and other services	**(77.197)**	**(54.399)**
Software licensing and support	(20.220)	(5.550)
Customer information	(12.876)	(11.376)
FITD and Resolution fund	(8.753)	(9.561)
Postage and archiving of documents	(7.326)	(5.254)
Property expenses	(6.245)	(4.667)
Transitional services agreement	(3.373)	(487)
Car fleet management and maintenance	(3.314)	(2.407)
Advertising and inserts	(3.061)	(3.769)
Telephone and data transmission expenses	(2.840)	(1.923)
Employee travel	(2.410)	(1.665)
Securitisation costs	(2.211)	(3.335)
External business trips and transfers	(1.070)	(425)
Other sundry expenses	(3.498)	(3.980)
Total administrative expenses	**(152.620)**	**(126.276)**

Other administrative expenses rose by 20,9%, specifically because of software licensing and support costs. In looking at the increase in total costs, one should account for the consolidation of the former GE Capital Interbanca Group over the 12 months.

Type of services	Service provider	Beneficiary	Fees (units of Euro)
Independent auditors' fees	EY S.p.A.	Banca IFIS S.p.A.	249.699
		Subsidiaries	119.301
Certification services	EY S.p.A	Banca IFIS S.p.A.	25.000
		Subsidiaries	-
Tax consultancy services	EY S.p.A	Banca IFIS S.p.A.	-
		Subsidiaries	-
Other services	EY S.p.A	Banca IFIS S.p.A.	95.000
		Subsidiaries	33
Total			**489.032**

The costs for certification services refer to agreed upon procedures related to the securitisation ABCP Programme. The costs for other services are principally related to services connected to the EMTN Programme, as described in paragraph "Significant events occurred during the year" of the Directors' report.

Section 12 – Net allocations to provisions for risks and charges – Item 190

12.1. Net allocations to provisions for risks and charges: breakdown

Type of expense/Amounts	31.12.2017	31.12.2016
- Allocations to prov. for charges for damages and avoidance actions	(5.089)	-
- Allocations to the provision for risks and charges for legal disputes	(2.125)	33
- Allocations to provisions for sundry risks and charges	1.035	(1.882)
- Use of the prov. for sundry charges	647	-
Total	**(5.532)**	**(1.849)**

Net allocations to provisions for risks and charges totalled 5,5 million Euro and were specifically related to legal disputes referring to the trade receivables segment.
For more details, see Part B, Section 12 Provisions for risks and charges in these Notes.

Section 13 – Net impairment losses/reversals on property, plant and equipment – Item 200

13.1. Net impairment losses on property, plant and equipment: breakdown

	Income items	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a + b - c)
A.	Property, plant and equipment				
	A.1 Owned	(4.353)	-	-	(4.353)
	- for functional use	(4.353)	-	-	(4.353)
	- for investment purposes	-	-	-	-
	A.2 Acquired under finance leases	(210)	-	-	(210)
	- for functional use	(210)	-	-	(210)
	- for investment purposes	-	-	-	-
	Total	**(4.563)**	**-**	**-**	**(4.563)**

Section 14 – Net impairment losses/reversals on intangible assets - Item 210

14.1 Net impairment losses on intangible assets: breakdown

	Income items	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a + b - c)
A.	Intangible assets				
	A.1 Owned	(6.889)	-	-	(6.889)
	- Internally generated	(167)	-	-	(167)
	- Other	(6.722)	-	-	(6.722)
	A.2 Acquired under finance leases	-	-	-	-
	Total	**(6.889)**	**-**	**-**	**(6.889)**

Section 15 – Other operating income (expenses) - Item 220

15.1 Other operating expenses: breakdown

Type of expense/Amounts	31.12.2017	31.12.2016
a) Transactions with customers	-	(3.616)
b) Capital losses	-	(317)
c) Other expenses	(25.278)	(4.271)
Total	**(25.278)**	**(8.204)**

Other expenses largely referred to the management and recovery of leased assets.

Transactions with customers included 2,8 million Euro in expenses incurred for a legal dispute involving the trade receivables segment.

15.2 Other operating income: breakdown

Income components/Amounts	31.12.2017	31.12.2016 RESTATED
a) Bargain on interest acquisition	-	633.404
a) Recovery of expenses charged to third parties	4.667	2.591
c) Receivable rental fees	508	86
d) Other income;	31.674	3.110
Total	**36.849**	**639.191**

At 31 December 2016, other operating income included the 633,4 million Euro (restated amount) gain on bargain purchase from the acquisition of the former GE Capital Interbanca Group.

The item “Recovery of expenses charged to third parties” referred to charges on customers for legal and consulting expenses as well as registration fees and stamp duties recognised “other administrative expenses” and recoveries of expenses associated with leasing operations.

Section 19 – Profit (Loss) from sale of investments - Item 270

19.1 Profit (Loss) from sale of investments: breakdown

Income items/Amounts		31.12.2017	31.12.2016
A.	Property, plant and equipment	74	-
	- Profit from sale	74	-
	- Loss from sale	-	-
B.	Other activities	(42)	-
	- Profit from sale	-	-
	- Loss from sale	(42)	-
	Net income	**32**	**-**

Section 20 - Income taxes for the year relating to current operations - Item 290

20.1 Income taxes for the year relating to current operations: breakdown

Income components/Sectors		31.12.2017	31.12.2016
1.	Current tax expense (-)	(1.859)	(35.306)
2.	Changes in current taxes of previous years (+/-)	271	(2.227)
3.	Reductions in current taxes for the year (+)	-	343
3.bis	Reductions in current taxes for the year for tax credits as per Italian Law no. 214/2011 (+)	10.318	-
4.	Changes in deferred tax assets (+/-)	(72.714)	2.763
5.	Changes in deferred tax liabilities (+/-)	(3.824)	1.886
6.	Tax expense for the year (-) (-1+/-2+3+3 bis+/-4+/-5)	(67.808)	(32.541)

The 72,7 million Euro change in deferred tax assets:

- Included the Deferred Tax Assets related to the taxable profit for the year, included in Other Assets as an approximately 54,1 million Euro Receivable due from the Parent/Consolidating Company La Scogliera under current tax consolidation arrangements.
- Excluded Two Solar Park's Deferred Tax Assets recognised in the consolidated financial statements as a result of the change in the scope of consolidation compared to the prior year.

20.2 Reconciliation between theoretical tax charges and effective tax charges for the year

Items/Components	31.12.2017
Pre-tax profit (loss) for the year from continuing operations	**248.575**
Corporate tax (IRES) – theoretical tax charge (27,5%)	(68.358)
- effect of non-taxable income and other reductions - permanent	*12.177*
- Effect of non-deductible charges and other increases - permanent	*(1.849)*
- benefits from the application of national tax consolidation	*-*
- non-current corporate tax	*1.365*
- deferred non-current corporate tax	*-*
- effect of other changes	*441*
Corporate tax – Effective tax charges	**(56.224)**
Regional tax on productive activities (IRAP) – theoretical tax charges (5,57%)	(13.785)
- effect of income/charges that are not part of the taxable base	*2.608*
- non-current regional tax on productive activities	*(575)*
- deferred non-current regional tax on productive activities	*173*
Regional tax on productive activities – Effective tax charges	**(11.579)**
Other taxes	**(5)**
Effective tax charges for the year	**(67.808)**

Section 23 – Other information

There is no further information to be reported in addition to that already included in previous or following sections of these notes to the consolidated financial statements.

Section 24 – Earnings per share

24.1 Average number of ordinary diluted shares

Earnings per share and diluted earnings per share	31.12.2017	31.12.2016
Consolidated net profit for the year (in thousands of Euro)	**180.767**	**697.714**
Average number of outstanding shares	53.431.314	53.034.493
Average number of potentially dilutive shares	3.162	4.340
Average number of diluted shares	53.428.152	53.030.153
Consolidated earnings per share (Units of Euro)	**3,38**	**13,16**
Consolidated diluted earnings per share (Units of Euro)	**3,38**	**13,56**

Potentially dilutive shares refer to share-based payments for upfront variable pay, as described in Part I of these Notes.

Part D - Consolidated statement of comprehensive income

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The changes in the values of assets recognised during the year against valuation reserves are reported below.

	Items (in thousands of Euro)	Gross amount	Income tax	Net amount
10.	**Profit (loss) for the year**	**248.575**	**67.808**	**180.767**
	Other comprehensive income not to be reclassified to profit or loss	**197**	**54**	**143**
20	Property, plant and equipment	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	197	54	143
50.	Non-current assets under disposal	-	-	-
60.	Share of valuation reserve of equity accounted investments	-	-	-
	Other comprehensive income to be reclassified to profit or loss	**3.339**	**747**	**2.592**
70.	Foreign investment hedges:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
80.	Exchange rate differences:	1.851	-	1.851
	a) fair value gains (losses)	1.851	-	1.851
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
90.	Cash flow hedges:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
100.	Available for sale financial assets:	1.488	747	741
	a) fair value gains (losses)	2.267	750	1.517
	b) reclassification to profit or loss	(779)	(3)	(776)
	- impairment losses		-	-
	- profit/loss from realisation	(779)	(3)	(776)
	c) other changes		-	-
110	Non-current assets under disposal:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
120	Share of valuation reserve of equity accounted investments:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	- impairment losses	-	-	-
	- profit/loss from realisation	-	-	-
	c) other changes	-	-	-
130	**Total other comprehensive income**	**3.536**	**801**	**2.735**
140	**Total comprehensive income (item 10+130)**	**252.111**	**68.609**	**183.502**
150.	Total consolidated comprehensive income attributable to non-controlling interests	-	-	-
160	**Total consolidated comprehensive income attributable to the parent**	**252.111**	**68.609**	**183.502**

Part E - Information on risks and risk management policies

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

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

This examination accompanied the preparation and submission to the Supervisory Body of the annual ICAAP and ILAAP Reports as at 31 December 2016.

In May 2017, again with reference to 31 December 2016 and in compliance with the obligations in the relevant provisions, Banca IFIS published information on its capital adequacy, its exposure to risks, and the general characteristics of the systems it has put in place to identify, measure and manage these risks. This document has been published on Banca IFIS's website www.bancaifis.it in the 'Investor relations' section.

With reference to the above, and as per Circular 285 of 17 December 2013 as amended - Supervisory Provisions for banks - the Banca IFIS Group has set up an Internal Control System that aims to guarantee a reliable and sustainable generation of value in a context of sensible risk control and taking, so as to protect the Group's capital adequacy as well as its financial position and performance. This document has been updated during 2017 also to reflect the Banca IFIS Group's new organisational structure following the mergers of the subsidiaries IFIS Factoring S.r.l. and Interbanca S.p.A. Into Banca IFIS.

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 (so-called) “second line of defence”) are intended to ensure the risk management process is correctly implemented in accordance with the operational limits assigned to the various functions, and that business operations comply with regulations—including corporate governance rules;
- internal auditing (so-called “third line of defence”) is aimed at identifying breaches of procedures and regulations as well as regularly assessing the comprehensiveness, adequacy, functionality (in terms of both efficiency and effectiveness), and reliability of the internal control and IT systems on a regular basis based on the nature and extent of the risks.

The role of the different players involved in the Internal Control System (the Board of Directors, the Control and Risks Committee, the Executive Director in charge of the Internal Control System, the Supervisory Body as per Legislative Decree no. 231, the Internal Audit Function, the Corporate Accounting Reporting Officer, the Risk Management Function, the Compliance Function, and the Anti-Money Laundering Function) are described in detail in the ‘Report on Corporate Governance and Shareholding Structure’, prepared pursuant to the third paragraph of article 123 bis of Italian Legislative Decree 58 of 24 February 1998 (Consolidated Law on Finance) as amended. The latest edition of the Report was approved by the Board of Directors on 6 March 2018 and published on the Bank’s website in the Corporate Governance section.

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

a) credit risk;

b) market risks:

- interest rate risk,
- price risk,
- currency risk,

c) liquidity risk;

d) operational risks.

Section 1 – Risks of the banking group

1.1 Credit risk

Qualitative information

General aspects

In accordance with the guidelines approved by the Parent's Governing Body and the changes in the supervisory regulatory framework, the Group seeks to strengthen its competitive position in the market for lending to Italian small and medium businesses. The aim is to increase its market share in the trade receivables, leasing, tax receivables, and distressed loan segments.

The banking group currently operates in the following fields:

- Short-term trade receivable financing and acquisition of receivables due from the Public Administration (Factoring operations)
- Corporate lending and structured finance (Lending operations)
- Finance and operating leases[17] (Leasing operations)
- Unsecured loans to retail entrepreneurs
- Purchasing and managing non-performing loan portfolios
- Purchasing and managing tax receivables
- Market for securities and equity investments

Specifically:

- 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 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, operating leases mainly focus on equipment finance—specifically on office and IT products and, to a lesser extent, industrial and healthcare equipment;
- the acquisition of distressed retail loans or non-performing loans, mainly from retail customers, refers to the set of actions aimed at collecting (through both judicial and non-judicial actions) the distressed loans acquired;
- the operations of the tax receivables segment consist in managing receipts of direct and indirect taxes as well as collecting tax receivables arising mainly from insolvency proceedings;
- Besides maintaining a position in the market for investments in debt securities, which mainly consists of Italian government bonds, the Group also trades to a lesser extent in equity markets, investing in non-controlling interests in unlisted companies to support their growth, in the market for mutual funds, and in third-party securitisation transactions.

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.

Organisational aspects

---

[17] Operating leases are made through a company that is not part of the Banking Group—as defined by supervisory regulations—IFIS Rental Services S.r.l.

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. During 2017, in accordance with the new organisational structure of the Banca IFIS Group resulting from the mergers of IFIS Factoring S.r.l. and Interbanca S.p.A. into Banca IFIS, the Parent reorganised the lending process, creating new Business Units dedicated to different activities.

Therefore, the organisational structure consists of the following Business Units:

- **Banca Ifis Impresa Italia**, dedicated to factoring and corporate lending services for Italian businesses*;*
- **Banca Ifis Impresa International**, dedicated to factoring services for Italian exporters as well as foreign companies;
- **Pharma**, dedicated to factoring services for local health agencies and hospitals;
- **Pharmacies**, the organisational unit that provides financing services for Italian pharmacies;
- **Tax Receivables**, the organisational unit dedicated to purchasing tax receivables, mainly from companies in insolvency proceedings or liquidation;
- **Structured Finance**, the organisational unit dedicated to developing, assessing and managing specialist financing transactions to support the growth of business customers;
- **Special Situations**, the organisational unit responsible for identifying and assessing new opportunities for lending to Italian companies that, despite reporting positive operating profits, have gone through or are recovering from financial distress;
- **Equity Investment**, the organisational unit responsible for conducting due diligence on investments in performing non-financial companies and intermediaries;
- **Non Performing Loans**, the organisational unit dedicated to purchasing, servicing and selling distressed loan portfolios—mainly retail unsecured ones—originated by financial institutions and banks.

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.p.A.'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 sends customers a commitment letter to inform them that their application has been approved and specifying the terms of the credit facility, 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 process for the acquisition of non-performing loan portfolios 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.

The operational management of receivables, carried out for performing customers, mainly consists in the **monitoring** activities conducted by specific units within the individual business units. These are responsible for constantly and pro-actively reviewing borrowers (first line of defence); in 2017, the Parent set up a supporting unit responsible for constantly monitoring credit positions with the aid of the reference manager and/or the Bank's evaluation structures in order to identify counterparties with performance problems as well as any changes compared to the assessments carried out during the underwriting stage or the most recent review of the position. The goal is to anticipate problems and provide adequate reporting to the competent decision-making bodies. If the credit position is in an objective situation of distress, it is transferred to specific functions specialised in managing non-performing exposures. The monitoring unit also reviews the position on a regular basis to ensure the mitigation actions taken by the managers within the business units are correctly implemented.

Collection operations for receivables deriving from purchases of distressed retail loans are the responsibility of resources within the Non-Performing Loans business unit as well as of a broad and proven network of debt collection companies and financial agents operating across Italy. The Non-Performing Loans business unit 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. Finally, it assesses the expediency of selling non-performing loan portfolios, submitting any proposals for approval to the competent decision-making bodies, consistently with the BU's profitability targets and after analysing the relevant accounting, reporting, legal, and operational impacts. To do so, it relies on the in-depth inquiries conducted by the Bank's competent business functions within their area of expertise.

Management, measurement and control systems

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

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

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

Concerning portfolio monitoring operations, as previously mentioned, loans to customers are monitored by specific units within the mentioned business units that are responsible for constantly and proactively reviewing borrowers (**first line of defence**); a specific organisational unit conducts additional monitoring at a centralised level using performance analysis 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 that was updated in December 2017.

Starting from January 2018, the new rules for the classification and measurement of financial assets as per the new accounting standard *IFRS9* will apply to the entire Group.

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 delegated 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-sectoral concentration risk.

Credit risk mitigation techniques

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 sector, based on the peculiarities of its products, it demands adequate collateral according to the counterparty's standing as well as the term and type of the facility. Said collateral includes mortgage guarantees, liens on plant and equipment, pledges, surety bonds, credit insurance, and collateral deposits. In the current year, the Bank has activated a new subsidised financing service for SMEs with the support of the Italian Ministry of Economic Development's Guarantee Fund. The goal is twofold: allow the company to obtain financing without pledging additional collateral (and therefore without paying for bank sureties or insurance policies) to the extent of the Fund's guarantee, and enable the Bank to mitigate the credit risk for the guaranteed exposure.

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.

In 2017, the Bank reviewed the processes for assessing the eligibility of mortgage guarantees on real estate assets, allowing to activate the mitigation mechanisms set out in the relevant prudential regulations.

Non-performing exposures

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

Concerning factoring operations, the relevant Head Office units constantly monitor clients. If the situation deteriorates or problems emerge, the supporting unit Troubled Loans Area takes over the management of the exposures. Based on available information, it also considers whether or not to classify the counterparty as unlikely to pay or bad loan. Managing non-performing exposures, either unlikely to pay or bad loans, normally falls under the responsibility of the Troubled Loans Area, which takes the most appropriate actions to hedge and recover debts, periodically reporting to the Top Management and the Board of Directors.

A similar process is formally in place also for IFIS Finance Sp. Zo.o.. Nonetheless, it should be noted that the subsidiary has only a marginal amount of non-performing exposures.

Concerning Lending, the supporting Workout & Credit Recovery function ensures that the classifications of distressed receivables in the risk categories established by supervisory provisions and recognised as non-performing exposures are regularly updated. The Bank manages non-performing loans by:

- taking any action considered necessary to collect debts, hiring independent attorneys together with the supporting Legal function if required.
- taking any non-judicial action considered necessary to collect the debt, including selling and restructuring the loans.

The Bank regularly updates the value of the mortgage based on independent appraisals adjusted to account for any losses arising from the realisation.

Concerning Leasing operations, the debt collection process is handled by the Collection office, which, after consulting with the Banking Group's various Business Units in the case of common clients, identifies any potential changes in risk classes.

Non-performing exposures include the receivables acquired by the Non-Performing Loans business unit at a significant discount to their par value; the receipts, which usually exceed the consideration paid, minimise the risk of losses.

As for non-performing exposures purchased and not yet collected, the overall outstanding book value of the portfolio was approximately 13.075 million Euro. At the time of purchase, the historical book value of these receivables was approximately 13.303 million Euro, and they were acquired for approximately 651 million Euro, i.e. an average price equal to approximately 4,9% of the historical book value. In 2017, approximately 4.745 million Euro were acquired for approximately 240 million Euro, i.e. an average price equal to 5,05%. The overall portfolio of non-performing exposures purchased and not yet collected has an overall weighted average life of around 24 months compared to their acquisition date.

Furthermore, it should be noted that overall at the end of 2017 there were approximately 27 million Euro in outstanding bills of exchange (the amount does not include, for instance, nearly 465 million Euro in outstanding settlement plans).

In 2017, the bank completed seven sales of portfolios to leading players whose business is purchasing NPLs. Overall, Banca IFIS sold receivables with an outstanding book value of nearly 1,146 million Euro, consisting of approximately 133 thousand positions, for an overall consideration of about 73 million Euro.

Concerning the changes in amortised cost other than impairment related to the bad loans of the NPL segment, in 2015 the Bank started classifying them no longer under item 130 Net impairment losses/reversals on receivables, but rather under item 10 Interest income.

Future cash flows from non-judicial operations are simulated using a statistical model, based on the proprietary portfolio's historical evidence, segmented by different drivers (the model is based on curves of breakdown over time calculated using proprietary historical technical bases).

As for individual operations, the cash flows are partly the result of the collection estimated by the manager and, only for the positions for which a court has issued a garnishment order, are calculated using a statistical model based on the data gathered from the proceedings. As in the case of collective operations, these estimates account for credit risk.

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.

A. Credit quality

A.1 Non-performing and performing loans: amounts, impairment losses, trend, economic and geographical distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (book values)

Portfolio/Quality	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Performing exposures	Total
1. Available for sale financial assets	-	-	-	-	427.876	427.876
2. Held to maturity financial assets	-	-	-	-	-	-
3. Due from banks	-	-	-	-	1.777.876	1.777.876
4. Loans to customers	603.974	482.933	117.815	296.186	4.934.898	6.435.806
5. Financial assets at fair value	-	-	-	-	-	-
6. Financial assets under disposal	-	-	-	-	-	-
Total 31.12.2017	**603.974**	**482.933**	**117.815**	**296.186**	**7.140.650**	**8.641.558**
Total 31.12.2016	**385.746**	**448.975**	**137.440**	**362.665**	**6.339.895**	**7.674.721**

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

A.1.2 Distribution of exposures by portfolio and credit quality (gross and net amounts)

Portfolio/Quality	Non-performing loans			Performing loans			Total (net exposure)
	Gross exposure	Specific impairment losses/rever-	Net exposure	Gross exposure	Portfolio impairment losses/rever-	Net exposure	
1. Available for sale financial assets	15.078	15.078	-	427.876	-	427.876	427.876
2. Held to maturity financial assets	-	-	-	-	-	-	-
3. Due from banks	-	-	-	1.777.876	-	1.777.876	1.777.876
4. Loans to customers	2.131.595	926.873	1.204.722	5.276.146	45.062	5.231.084	6.435.806
5. Financial assets at fair value	-	-	-	X	X	-	-
6. Financial assets under disposal	-	-	-	-	-	-	-
Total 31.12.2017	**2.146.673**	**941.951**	**1.204.722**	**7.481.898**	**45.062**	**7.436.836**	**8.641.558**
Total 31.12.2016	**1.943.508**	**971.347**	**972.161**	**6.749.841**	**47.281**	**6.702.560**	**7.674.721**

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	1.384	1.271	34.343
2. Hedging derivatives	-	-	-
Total 31.12.2017	**1.384**	**1.271**	**34.343**
Total 31.12.2016	**6.341**	**7.585**	**39.411**

In compliance with paragraph 37, letter a) of IFRS 7 "Financial Instruments: Disclosures", here below is the maturity analysis for past due amounts relating to performing loans – Other loans.

(in thousands of Euro)	31.12.2017	31.12.2016
Past due up to 3 months	136.951	148.661
Past due > 3 months < 6 months	23.356	38.021
Past dye > 6 months < 1 year	36.495	49.211
Past due > 1 year	99.384	124.870
Total	**296.186**	**360.763**

A.1.3 Banking group - On- and off-balance-sheet exposures to banks: gross and net amounts and past due buckets

Types of loans/ amounts	Gross exposure					Specific impairment losses/reversals	Portfolio impairment losses/reversals	Net exposure
	Non-performing loans				Performing loans			
	up to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 year				
A. ON-BALANCE-SHEET EXPOSURES								
a) Bad loans	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
c) Non-performing past due exposures	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
d) Performing past due exposures	X	X	X	X	-	X	-	-
- of which: forborne exposures	X	X	X	X	-	X	-	-
e) Other performing exposures	X	X	X	X	1.771.514	X	-	1.771.514
- of which: forborne exposures	X	X	X	X		X	-	-
Total A	**-**	**-**	**-**	**-**	**1.771.514**	**-**	**-**	**1.771.514**
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	-	-	-	-	X	-	X	-
b) Performing	X	X	X	X	17.391	X		17.391
Total B	**-**	**-**	**-**	**-**	**17.391**	**-**	**-**	**17.391**
TOTAL A+B	**-**	**-**	**-**	**-**	**1.788.905**	**-**	**-**	**1.788.905**

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

A.1.6 Banking group - On- and off-balance-sheet exposures to customers: gross and net amounts and past due buckets

Types of loans/amounts	Gross exposure					Specific impairment losses/re-versals	Portfolio impairment losses/re-versals	Net expo-sure
	Non-performing loans				Performing loans			
	up to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 year				
A. ON-BALANCE-SHEET EXPO-SURES								
a) Bad loans	534.195	4.779	15.200	780.008	X	730.386	X	603.796
- of which: forborne exposures	54.798	-	388	60.087	X	51.849	X	63.424
b) Unlikely to pay	204.116	26.033	61.928	387.779	X	179.727	X	500.129
- of which: forborne exposures	81.780	2.009	3.554	170.262	X	107.272	X	150.333
) Non-performing past due expo-sures	82.706	17.888	16.393	10.409	X	11.290	X	116.106
- of which: forborne exposures	624	150	370	1.502	X	1.434	X	1.212
d) Performing past due exposures	X	X	X	X	301.533	X	5.347	296.186
- of which: forborne exposures	X	X	X	X	5.519	X	1.184	4.335
e) Other performing exposures	-	-	-	-	5.261.587	-	37.222	5.224.365
- of which: forborne exposures	X	X	X	X	52.560	X	1.473	51.087
Total A	**821.017**	**48.700**	**93.521**	**1.178.196**	**5.563.120**	**921.403**	**42.569**	**6.740.582**
B. OFF-BALANCE-SHEET EXPO-SURES								
a) Non-performing	67.102	X	X	X	X	15.544	X	51.558
b) Performing	X	X	X	X	451.778	X	X	451.778
Total B	**67.102**	**-**	**-**	**-**	**451.778**	**15.544**	**-**	**503.336**
TOTAL A+B	**888.119**	**48.700**	**93.521**	**1.178.196**	**6.014.898**	**936.947**	**42.569**	**7.243.918**

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

A.1.7 Banking group - On-balance-sheet exposures to customers: trends in gross non-performing exposures

Type/Categories	Bad loans	Unlikely to pay	Past due loans
A. Opening gross exposure	**1.123.091**	**638.547**	**153.766**
- of which: transferred and not derecognised	-	-	-
B. Increases	**572.069**	**440.348**	**186.934**
B.1 inflows from performing loans	2.732	96.848	173.253
B.2 transfers from other non-performing loan categories	92.036	80.134	687
B.3 other increases	477.301	263.366	12.994
C. Reductions	**360.978**	**399.039**	**213.304**
C.1 outflows to performing loans	427	21.290	62.131
C.3 derecognitions	58.623	63.076	4.262
C.3 collections	96.529	125.020	119.292
C.4 collections from sales	18.944	14.435	-
C.5 losses on disposal	-	-	-
C.4 transfers to other non-performing loan categories	68.786	82.098	21.975
C.5 other reductions	117.669	93.120	5.644
D. Closing gross exposure	**1.334.182**	**679.856**	**127.396**
- of which: transferred and not derecognised	-	-	-

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

Total **net non-performing exposures** amounted to 1,204,8 million Euro, compared to 972,2 million Euro at the end of 2016 (+23,9%). The change is largely attributable to the purchases made by the NPL Area (+42,1%) and the increase in the Trade Receivables segment (+9,0%), only partially offset by the reduction in the non-performing exposures of the Corporate Banking and Leasing segments (-11,9% and -9,9%, respectively, compared to the end of 2016).

Total **bad loans** to customers at 31 December 2017, net of impairment losses, totalled 604,0 million Euro, against 385,7 million Euro at 31 December 2016 (+56,6%). The increase is essentially attributable to the purchases made by the NPL Area during the year; the Trade Receivables segment reported a 1,0% decline, whereas net bad loans in the new Corporate Banking and Leasing segments were up 6,0% and 147,0%, respectively.

In December 2017, **unlikely to pay** totalled 482,9 million Euro, compared to 449,0 million Euro in 2016 (+7,6%), including 270,1 million Euro related to the NPL Area (+11,8 million Euro from the end of 2016). The Trade Receivables segment's unlikely to pay were up 61,8%, while the new Corporate Banking and Leasing segments reported a 14,9% and 36,0% increase, respectively.

Net non-performing past due exposures totalled 117,9 million Euro at 31 December 2017, compared with 137,4 million Euro in December 2014 (-11,0%), and essentially declined across all segments: Trade Receivables -11,0%, Corporate Banking -44,9%, and Leasing -45,4%. In addition, the Governance and Services segment and the NPL Area reported 1,7 and 0,4 million Euro worth of past due exposures, respectively.

A.1.7bis Banking group - On-balance-sheet exposures to customers: trends in gross forborne exposures broken down by credit quality

Type/Categories	Forborne exposures: non-performing	Forborne exposures: performing
A. Opening gross exposure	**388.625**	**44.265**
- of which: transferred and not derecognised	-	-
B. Increases	**93.970**	**43.228**
B.1 inflows from non-forborne performing exposures	90.530	-
B.2 inflows from forborne performing exposures	3.440	28.011
B.3 inflows from non-performing forborne exposure	-	2.950
B.4 other increases	-	12.267
C. Reductions	**107.071**	**29.414**
B.1 outflows to non-forborne performing exposures	28.011	17.352
B.2 outflows to forborne performing exposures	2.950	-
B.3 outflows to non-performing forborne exposure	7.227	1.530
C.4 derecognitions	6.585	-
C.5 collections	18.610	10.532
C.6 collections from sales	-	-
C.7 losses on disposal	-	-
C.8 other reductions	43.688	-
D. Closing gross exposure	**375.524**	**58.079**
- of which: transferred and not derecognised	-	-

A.1.8 Banking group - On-balance-sheet exposures to customers: trends in overall impairment losses/reversals

Type/Categories	Bad loans		Unlikely to pay		Non-performing past due exposures	
	Total	Of which forborne exposures	Total	Of which forborne exposures	Total	Of which forborne exposures
A. Opening balance of total impairment losses/ reversals of impairment losses	**737.534**	**58.130**	**189.628**	**116.192**	**18.237**	**15**
- of which: transferred and not derecognised	-	-	-	-	-	-
B. Increases	**115.627**	**25.143**	**120.744**	**34.570**	**2.806**	**5.182**
B.1 Impairment losses	31.683	8.052	43.433	13.420	2.479	243
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other non-performing loan categories	25.602	7.671	69.243	21.150	142	142
B.4 other increases	58.342	9.420	8.068	-	185	4.797
C. Reductions	**122.775**	**31.424**	**130.645**	**43.490**	**9.753**	**3.763**
C.1 impairment reversals from measurement	3.028	633	27.405	8.722	116	79
C.2 impairment reversals from collection	10.576	2.546	11.400	8.119	2.793	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 derecognitions	40.814	2.351	50.422	4.575	3.055	-
C.5 transfers to other non-performing loan categories	68.078	21.150	23.309	4.144	3.669	3.669
C.6 other reductions	279	4.744	18.109	17.930	120	15
D. Closing balance of total impairment losses/ reversals of impairment losses	**730.386**	**51.849**	**179.727**	**107.272**	**11.290**	**1.434**
- of which: transferred and not derecognised	-	-	-	-	-	-

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of on- and off-balance-sheet exposures by class of external rating

For the purposes of calculating capital requirements against credit risk, Banca IFIS uses the external credit assessment institution (ECAI) Fitch Ratings exclusively for the positions recognised under "Exposures to Central Governments and Central Banks"; no external ratings are used for the other asset classes. Considering the composition of the assets, external ratings are used exclusively for the portfolio of government bonds.

A.2.2 Distribution of on- and off-balance-sheet exposures by class of internal rating

The Bank does not use internal ratings for the purposes of calculating capital absorption. Banca IFIS has implemented an Internal Rating System for domestic businesses, which was developed using proprietary databases and consists of:

- a "financial" module, to assess the company's operating/financial soundness;
- a "central credit register" module, presenting the evolution of counterparty risk vis-à-vis the banking industry;
- an "internal performance" module, monitoring the performance of the relationships between the counterparty and the Bank.

A.3 Distribution of guaranteed exposures by guarantee type

A.3.2 Banking group - Guaranteed exposures to customers

	Net exposure	Collateral guarantees (1)				Personal guarantees (2)									Total (1)+(2)
						Credit derivatives					Unsecured loans				
							Other derivatives								
		Property Mortgages	Property Finance Leases	Securities	Other collateral guar-antees	CLN	Governments and central banks	Other public entities	Banks	Other entities	Governments and central banks	Other public entities	Banks	Other entities	
1. Guaranteed on-balance-sheet exposures:	**964.892**	**423.256**	**-**	**11.388**	**99.359**	**-**	**-**	**-**	**-**	**-**	**7.444**	**39**	**214**	**227.381**	**769.081**
1.1 totally guaranteed	621.946	383.295	-	6.764	57.441	-	-	-	-	-	1.885	39	214	170.858	620.496
- of which non-performing	117.648	88.217	-	120	3.436	-	-	-	-	-	-	39	-	25.836	117.648
1.2 partially guaranteed	342.946	39.961	-	4.624	41.918	-	-	-	-	-	5.559	-	-	56.523	148.585
- of which non-performing	58.111	22.220	-	315	4.590	-	-	-	-	-	391	-	-	2.367	29.883
2. Guaranteed off-balance-sheet exposures:	**12.495**	**1.224**	**-**	**3.142**	**42**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1.862**	**6.270**
2.1 totally guaranteed	5.194	1.178	-	2.134	21	-	-	-	-	-	-	-	-	1.862	5.195
- of which non-performing	1.854	-	-	-	-	-	-	-	-	-	-	-	-	1.854	1.854
2.2 partially guaranteed	7.301	46	-	1.008	21	-	-	-	-	-	-	-	-	-	1.075
- of which non-performing	1.089	-	-	-	21	-	-	-	-	-	-	-	-	-	21

B. Concentration and distribution of exposures

B.1 Banking group - Distribution of on- and off-balance-sheet exposures to customers by segment (book value)

Exposures/counterparties	Governments			Other public entities			Financial institutions			Insurance companies			Non-financial companies			Other entities		
	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment	Portfolio impairment losses/reversal	Net exposure	Specific impairment	Portfolio impairment losses/reversal	Net exposure	Specific impairment	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment
A. On-balance-sheet exposures																		
A.1 Bad loans	-	-	X	4.445	3.306	X	1.392	17.324	X	1	-	X	103.751	647.280	X	494.007	62.746	X
- of which forborne exposures			X			X	890	8.444	X			X	6.103	32.226	X	56.431	1	X
A.2 Unlikely to pay	490	130	X	2.683	454	X	35.866	12.111	X	-	-	X	204.057	158.382	X	257.033	8.650	X
- of which forborne exposures			X	1.931	454	X	2.232	6.638	X			X	87.546	93.491	X	58.624	4	X
A.3 Non-performing past due exposures	14.032	2.709	X	32.600	9	X	35	2	X	-	-	X	59.958	2.668	X	9.481	5.882	X
- of which forborne exposures			X			X			X			X	635	15	X	577	9	X
A.4 Performing exposures	550.109	X	18	621.412	X	84	573.704	X	1.936	16	X	-	3.754.122	X	33.016	21.188	X	-
- of which forborne exposures		X		50	X			X			X		43.923	X	1.039	11.449	X	
Total A	**564.631**	**2.839**	**18**	**664.140**	**3.769**	**84**	**611.197**	**29.437**	**1.936**	**17**	**-**	**-**	**4.121.888**	**808.350**	**33.016**	**781.709**	**77.008**	**-**
B. Off-balance-sheet exposures																		
B.1 Bad loans	-	-	X	-	-	X	-	-	X	-	-	X	9.996	-	X	12.527	-	X
B.2 Unlikely to pay	-	-	X	-	-	X	-	-	X	-	-	X	21.939	15.544	X	1	-	X
B.3 Other non-performing exposures	-	-	X	-	-	X	1.100	-	X	-	-	X	5.995	-	X	-	-	X
A.4 Performing exposures	-	X	-	-	X	-	45.748	X	-	351	X	-	393.168	X	-	12.511	X	-
Total B	**-**	**-**	**-**	**-**	**-**	**-**	**46.848**	**-**	**-**	**351**	**-**	**-**	**431.099**	**15.544**	**-**	**25.039**	**-**	**-**
Total (A+B) 31.12.2017	**564.631**	**2.839**	**18**	**664.140**	**3.769**	**84**	**658.045**	**29.332**	**1.936**	**368**	**-**	**-**	**4.552.986**	**823.894**	**33.016**	**806.748**	**77.008**	**-**
Total (A+B) 31.12.2016	**459.646**	**149**	**33**	**842.737**	**2.799**	**121**	**144.623**	**70.221**	**927**	**56**	**-**	**-**	**4.309.144**	**796.565**	**32.623**	**948.266**	**93.298**	**97**

B.2 Banking group - Geographical distribution of on- and off-balance-sheet exposures to customers (book value)

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet exposures										
A.1 Bad loans	603.654	725.103	126	3.734	8	-	3	-	5	1.549
A.2 Unlikely to pay	495.026	171.886	5.097	5.875	1	1.966	1	-	4	-
A.3 Non-performing past due expo-	104.009	11.027	11.763	255	334	8	-	-	-	-
A.4 Performing exposures	5.232.004	39.248	210.442	1.809	60.184	1.334	17.620	182	301	3
Total A	**6.434.693**	**947.264**	**227.428**	**11.673**	**60.527**	**3.308**	**17.624**	**182**	**310**	**1.552**
B. Off-balance-sheet exposures										
B.1 Bad loans	22.523	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	21.940	2.253	-	13.291	-	-	-	-	-	-
B.3 Other non-performing exposures	5.957	-	1.138	-	-	-	-	-	-	-
A.4 Performing exposures	383.925	-	67.344	-	-	-	484	-	25	-
Total B	**434.345**	**2.253**	**68.482**	**13.291**	**-**	**-**	**484**	**-**	**25**	**-**
Total (A+B) 31.12.2017	**6.869.039**	**949.517**	**295.910**	**24.964**	**60.527**	**3.308**	**18.108**	**182**	**335**	**1.552**
Total (A+B) 31.12.2016	**6.276.324**	**978.326**	**268.242**	**23.345**	**60.068**	**4.852**	**14.678**	**123**	**860**	**1.332**

B.3 Banking group – Geographical distribution of on- and off-balance-sheet exposures to banks (book value)

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal
A. On-balance-sheet exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due expo-	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	1.726.423	-	31.091	-	14.000	-	-	-	-	-
Total A	**1.726.423**	**-**	**31.091**	**-**	**14.000**	**-**	**-**	**-**	**-**	**-**
B. Off-balance-sheet exposures										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other non-performing expo-	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	5.292	-	1.002	-	11.097	-	-	-	-	-
Total B	**5.292**	**-**	**1.002**	**-**	**11.097**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31.12.2017	**1.731.715**	**-**	**32.093**	**-**	**25.097**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31.12.2016	**2.091.160**	**-**	**26.310**	**-**	**15.983**	**-**	**-**	**-**	**-**	**-**

B.4 Major exposures

		31.12.2017	31.12.2016
a)	Book value	2.594.838	2.391.848
b)	Weighted amount	475.210	660.238
c)	Number	3	4

The overall weighted amount of Major Exposures at 31 December 2017 consisted of 224,6 million Euro in tax assets and 250,6 million Euro in exposures to equity investments not included in the prudential scope of consolidation.

Disclosure regarding Sovereign Debt

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

In compliance with the provisions of the aforementioned communication, it should be noted that at 31 December 2017 the book value of exposures to sovereign debt[(1)] represented by debt securities was 427,8 million Euro, and consisted entirely of Italian government bonds; these securities, with a par value of 423 million Euro, are classified under Available for sale (AFS) financial assets and included in the banking book; the weighted residual average life of these securities is approximately 62 months.

The fair values used to measure the exposures to sovereign debt at 31 December 2017 are considered level 1, and the exposures concerned were not impaired at that date. For further details on the measurement method applied and the classification, please refer to the sections on Accounting policies and Information on the consolidated statement of financial position.

Pursuant to the CONSOB Communication, besides the exposure to sovereign debt, it is also necessary to consider receivables due from the Italian National Administration, which at 31 December 2017 totalled 797,8 million, including 661 million Euro due from "other public bodies" and 136,8 million Euro due from the "central government" (of which 79,6 million Euro relating to tax receivables).

1. As indicated in the ESMA document, 'exposures to sovereign debt' refer to bonds issued by, and loans given, to central and local government and governmental bodies.

C. Securitisation transactions

C.1 Securitisation transactions

Qualitative information

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

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

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, the vehicle named IFIS ABCP Programme S.r.l. issued 850 million Euro worth of senior notes subscribed for by the investment vehicles owned by the banks that co-arranged the transaction. An additional tranche of senior notes, with a maximum par value of 150 million Euro — of which investors initially subscribed for 19,2 million Euro, and that was subsequently adjusted based on the composition of the assigned portfolio — was subscribed for by Banca IFIS, which will use them as collateral in refinancing operations with third parties. At 31 December 2017, the amount subscribed for by the Bank reached the maximum limit of 150 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 four times each month; this ensures a short time lapse between the outflows from the Bank and the inflows associated with the payment of the new assignments.

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

In compliance with IASs/IFRSs, currently the securitisation process does not involve the substantial transfer of all risks and rewards, as it does not meet the derecognition requirements set by IAS 39. In addition, the vehicles were consolidated in order to provide a comprehensive view of the transaction.

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

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

At 31 December 2017, the interest on the senior notes recognised in profit or loss amounted to 9,7 million Euro (at a 1,15% rate).

Third-party securitisation transactions

At 31 December 2017, the Group held 33,6 million Euro in notes deriving from third-party securitisation transactions categorised within the banking book portfolio. Banca IFIS has subscribed for 32,9 million Euro worth of senior notes and 0,8 million Euro worth of junior notes.

Specifically, these derive from three separate third-party securitisation transactions whose underlying assets were, respectively, a non-performing secured loan portfolio, a speculative *mutuo fondiario* (a type of mortgage loan), and a portfolio of minibonds issued by Italian listed companies.

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

- “San Marco” Securitisation: this is a securitisation of a non-performing secured portfolio of mortgage loans with an overall par value of approximately 160 million Euro and maturity in September 2022. The Parent participates as Senior Noteholder and Sponsor, subscribing for 100% of the senior tranches (24,8 million Euro) and 5% of the junior tranches (0,7 million Euro), which were issued by the special purpose vehicle Tiberio SPV S.r.l.;
- “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 par value of 20 million Euro and maturity in October 2020. Also in this case, the Parent participates as Senior Noteholder and Sponsor, subscribing for 100% of the senior notes (2,0 million Euro) and 5% of the junior notes (44 thousand Euro);
- “Elite Basket Bond (EBB)” Securitisation: the special purpose vehicle EBB S.r.l. issued Asset Backed Securities (ABS) at a price equal to the par value, 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 participates in this transaction only as underwriter, subscribing for 6,0 million Euro worth of notes of the above tranche.

Quantitative information

C.1 Banking group- Exposures from the main “own” securitisations broken down by type of securitised asset and type of exposure

Type of securitised asset/ Exposure	On-balance-sheet exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Impairment losses/ reversals	Carrying amount	Impairment losses/ reversals	Carrying amount	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals
A. Fully derecognised	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- asset type	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Partly derecognised	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- asset type	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised	-	-	-	-	100.710	-	-	-	-	-	-	-	-	-	-	-	-	-
- non-performing loans to customers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- performing loans to customers	-	-	-	-	100.710-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.2 Banking group- Exposures from the main “third-party” securitisations broken down by type of securitised asset and type of exposure

Type of securitised asset/ Exposure	On-balance-sheet exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Impairment losses/ reversals	Carrying amount	Impairment losses/ reversals	Carrying amount	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals
Secured and unsecured loans	26.846	-	-	-	754	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt securities	6.013	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**32.859**	**-**	**-**	**-**	**754**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

C.3 Banking group - Interests in special purpose vehicles for the securitisation

Securitisation name/ special purpose vehicle	Registered office	Consolidation	Assets			Liabilities		
			Loans and receivables	Debt securities	Others	Senior	Mezzanine	Junior
IFIS ABCP Programme S.r.l.	Conegliano (Province of Treviso)	100%	1.566.291	-	171.151	1.000.000	-	-

C.6 Interests in special purpose vehicles

Securitisation name/ special purpose vehicle	Registered office	% stake
IFIS ABCP Programme S.r.l.	Conegliano (Province of Treviso)	0%

D. Disclosure on structured entities (other than securitisation vehicles)
D.2 Unconsolidated structured entities

Qualitative information

During 2014, Banca IFIS bought a property in Florence for 9,6 million Euro. This now houses the NPL area's offices. At the same time, the Bank sold a finance lease agreement concerning the property currently housing the NPL Area to a newco, a special purpose vehicle set up exclusively to manage said property and owned by a real estate company not related to the Banca IFIS Group.

In 2017, Banca IFIS took over the lease agreement and the newco was placed in liquidation.

Banca IFIS continues reporting the asset under property, plant and equipment, and the relevant financial liability under payables due to customers.

Therefore, there were no other unconsolidated structured entities at 31 December 2017.

E. Disposals

A. Financial assets sold and not fully derecognised

Qualitative information

Financial assets sold but not derecognised refer to securitised receivables and Italian government bonds used for repurchase agreements. Those financial assets are recognised under available for sale financial assets, whereas financing for repurchase agreements is recognised under payables due to customers.

Quantitative information

E.1 Financial assets sold and not derecognised: book value and full value

Types/ Portfolio	Financial assets held for trading			Financial assets at fair value			Available for sale financial assets			Held to maturity financial assets			Due from banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31.12.17	31.12.16
A. On-balance-sheet assets	-	-	-	-	-	-	-	-	-	-	-	-	**699**	-	-	**220.220**	-	-	**220.919**	**1.250.659**
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	323.033
2. Equity securities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. UCITS	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	699	-	-	220.220	-	-	220.919	927.626
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total 31.12.2017	-	-	-	-	-	-	-	-	-	-	-	-	**699**	-	-	**220.220**	-	-	**220.919**	X
of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*1.736*	-	-	*1.736*	X
Total 31.12.2016	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X	**1.250.659**
of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X	*1.373*

Key:
A= Financial assets sold and fully recognised (book value)
B= Financial assets sold and partly recognised (book value)
C= Financial assets sold and partly recognised (full value)

1.2 Banking group – market risks

Generally, as the Banca IFIS Group does not usually trade in financial instruments, its financial risk profile refers mainly to the banking book. The activity of purchasing bonds, given that these are classified under Available for Sale, falls within the scope of the banking book and does not, therefore, constitute new market risks.

At the end of 2017, the Group recognised currency swaps with a mark-to-market value positive to the tune of 2,808 thousand Euro and negative to the tune of 184 thousand Euro. The classification of these derivatives under financial assets or liabilities held for trading does not reflect the aim of the transaction, which is to mitigate the impact of potential movements in the reference exchange rates. It should be noted that the difference between the spot price and the forward price, although this was recognised in profit or loss under item 80 Net result from trading as an exchange difference, includes also a component of interest.

At the end of 2017, in line with internal policies forbidding any kind of trading for speculative purposes, the trading book consisted entirely of residual transactions from the Corporate Desk operations of the former Interbanca S.p.A. that were discontinued in 2009, 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.

1.2.1 Interest rate risk and price risk – supervisory trading book

Qualitative information

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

The Group manages the trading book to mitigate the risk position, as it does not engage in speculative purposes.

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

1. Supervisory trading book: distribution by residual duration (re-pricing date) of on-balance-sheet financial assets and liabilities and financial derivatives - Currency: Euro

Type/Residual life	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 years to 10 years	over 10 years	indefinite life
1. On-balance-sheet assets	**-**	**-**	**189**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	189	-	-	-	-	-
2. On-balance-sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other								
+ long positions	531	181.762	235.265	9.496	99.618	46.167	-	-
+ short positions	531	47.734	155.238	9.469	99.510	46.167	-	-

1. Supervisory trading book: distribution by residual duration (re-pricing date) of on-balance-sheet financial assets and liabilities and financial derivatives - Currency: Other currencies

Type/Residual life	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 years to 10 years	over 10 years	indefinite life
1. On-balance-sheet assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance-sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other								
+ long positions	-	18.490	-	-	-	-	-	-
+ short positions	-	151.478	79.906	-	-	-	-	-

1.2.2 Interest rate risk and price risk – banking portfolio

Qualitative information

A. General aspects, management procedures and measurement methods concerning the interest rate risk and the price risk

Quantitative information

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. In 2017, the Group launched a strategy to diversify funding sources: in the first half of 2017, it launched a 4-year TLTRO (Targeted longer-term refinancing operations) institutional funding programme. In addition, it expanded wholesale funding by issuing bonds reserved for institutional investors as part of the “EMTN” programme. These bonds (one of which is subordinated) are medium-long term and have a fixed interest rate. In 2017, the Bank repurchased the notes related to the self-securitisations with the leasing and corporate portfolios as the underlying assets. Meanwhile, the floating-rate securitisation with the factoring portfolio as the underlying asset is still outstanding (3-year revolving programme).

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 NPL BU), for which the business model focuses on acquiring receivables at prices lower than their book value, there is a potential interest rate risk associated with the uncertainty about when the receivables will be collected. The variability in the loan’s term, which to all intents and purposes can be considered at a fixed rate, is particularly important with reference to tax receivables, the overall par value of which is highly likely to be collected, although in the medium/long term. In this context, and in order to effectively mitigate interest rate risk, it is particularly important to correctly assess the transaction during the initial acquisition stage.

At 31 December 2017, the bond portfolio mainly consisted of inflation-indexed bonds (excluding the repurchases of notes from self-securitisation transactions). The average duration of the overall portfolio is approximately 66 months.

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

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

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

The interest rate risk falls under the category of second-pillar risks. In the final document sent to the Supervisory Body, as per the relevant regulations (Circular 285 of 17 December 2013 – Title III, Chapter 1, Annex C), the Interest Rate Risk has been specifically measured in terms of capital absorption. Monitoring is performed the consolidated level.

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

As for the price risk, the Group does not generally assume risks associated with price fluctuations on financial instruments, as its business focuses on financing SMEs' working capital.

The classification of the bonds held as Available for sale financial assets introduces the risk that the Group's reserves may fluctuate as a result of the change in their fair value. However, this risk is considered moderate given the relatively small size of the portfolio in proportion to total assets (approximately 5%) and its composition, as it mostly consists of government bonds.

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

B. Fair value hedging

There are no fair value hedges.

C. Cash flow hedging

There are no cash flow hedges.

1. Banking book: distribution by residual duration (re-pricing date) of financial assets and liabilities - Currency: Euro

Type/Residual life	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 years to 10 years	over 10 years	Indefinite duration
1. On-balance-sheet assets	**3.051.706**	**2.726.680**	**1.057.529**	**271.482**	**681.579**	**213.840**	**29.683**	**-**
1.1 Debt securities	-	402.783	397.695	-	41.219	3.951	6.013	-
- with early redemption option	-	402.783	-	-	8.996	3.951	6.013	-
- other	-	-	397.695	-	32.223	-	-	-
1.2 Loans to banks	81.983	1.371.495	18	-	-	-	-	-
1.3 Loans to customers	2.969.723	952.402	659.816	271.482	640.360	209.889	23.670	-
- current accounts	176.038	686	440	1.703	29.292	6.248	94	-
- other loans	2.793.685	951.716	659.376	269.779	611.068	203.641	23.576	-
- with early redemption option	163.840	474.801	428.289	35.424	37.147	15.557	1.909	-
- other	2.629.845	476.915	231.087	234.355	573.921	188.084	21.667	-
2. On-balance-sheet liabili-	**1.290.251**	**1.933.033**	**672.306**	**626.394**	**2.571.555**	**403.488**	**-**	**-**
2.1 Due to customers	1.177.203	1.912.305	672.173	626.315	1.572.552	1.969	-	-
- current accounts	247.593	111.144	28.050	12.716	807	1.969	-	-
- other payables	929.610	1.801.161	644.123	613.599	1.571.745	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	929.610	1.801.161	644.123	613.599	1.571.745	-	-	-
2.2 Due to banks	25.705	20.711	15	-	698.085	-	-	-
- current accounts	20.815	-	-	-	-	-	-	-
- other payables	4.890	20.711	15	-	698.085	-	-	-
2.3 Debt securities	87.343	17	118	79	300.918	401.519	-	-
- with early redemption option	-	-	-	-	-	401.519	-	-
- other	87.343	17	118	79	300.918	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance-sheet transactions								
+ long positions	44.323	-	-	-	-	-	-	-
+ short positions	20.764	-	4.181	655	7.868	10.855	-	-

1. Banking book: distribution by residual duration (re-pricing date) of financial assets and liabilities - Currency: Other currencies

Type/Residual life	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 years to 10 years	over 10 years	Indefinite duration
1. On-balance-sheet assets	**108.355**	**145.712**	**9.807**	**1**	**1.236**	**496**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	13.875	49.199	-	-	-	-	-	-
1.3 Loans to customers	94.480	96.513	9.807	1	1.236	496	-	-
- current accounts	186	-	-	-	-	-	-	-
- other loans	94.294	96.513	9.807	1	1.236	496	-	-
- with early redemption option	28.074	48.899	9.343	1	-	496	-	-
- other	66.220	47.614	464	-	1.236	-	-	-
2. On-balance-sheet liabili-	**218**	**18.978**	**-**	**-**	**561**	**-**	**-**	**-**
2.1 Due to customers	209	-	-	-	561	-	-	-
- current accounts	204	-	-	-	561	-	-	-
- other payables	5	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	5	-	-	-	-	-	-	-
2.2 Due to banks	9	18.978	-	-	-	-	-	-
- current accounts	9	-	-	-	-	-	-	-
- other payables	-	18.978	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance-sheet transactions								
+ long positions	714	2.134	-	-	-	-	-	-
+ short positions	714	2.134	-	-	-	-	-	-

1.2.3 Currency risk

Qualitative information

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

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

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

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

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

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

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

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

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

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

Furthermore, Banca IFIS owns a 5.57% interest in India Factoring and Finance Solutions Private Limited, worth 20 million Indian rupees and with a market value of 3.044 thousand Euro at the historical exchange rate. In 2015 the Bank tested said interest for impairment, recognising a 2,4 million Euro charge in profit or loss. In 2016 and 2017, the fair value was revalued by 193,4 and 540,7 thousand Euro, respectively, through equity, bringing the value of the equity interest to 1.405,3 million Euro.

B. Currency risk's hedging activity

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

Quantitative information

1. Distribution of assets, liabilities and derivatives by currency

Items	Currencies					
	US DOLLAR	POUND STERLING	POLISH ZLOTY	CANADIAN DOLLAR	SWISS FRANC	OTHER CURRENCIES
A. Financial assets	**187.442**	**3.486**	**4.622**	**36**	**722**	**17.853**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	-	-	-	-	-	1.405
A.3 Loans to banks	56.446	882	4.573	35	524	613
A.4 Loans to customers	130.996	2.604	49	1	198	15.835
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Financial liabilities	**790**	**1.165**	**2.636**	**-**	**940**	**14.227**
C.1 Due to banks	85	1.128	2.636	-	940	14.199
C.2 Due to customers	705	37	-	-	-	28
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives						
- Options						
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other						
+ long positions	-	-	18.490	-	-	-
+ short positions	209.434	-	20.344	-	-	1.607
Total assets	**187.442**	**3.486**	**23.112**	**36**	**722**	**17.853**
Total liabilities	**210.224**	**1.165**	**22.980**	**-**	**940**	**15.834**
Unbalance (+/-)	**22.782**	**2.321**	**132**	**36**	**218**	**2.019**

1.2.4 Derivative instruments

A. Financial derivatives

The Banca IFIS Group does not trade in financial derivatives on behalf of third parties and limits proprietary trading to instruments hedging against market risk.

Banca IFIS often uses financial derivatives to hedge currency exposures. At 31 December 2017, the Bank recognised foreign exchange derivatives with a positive fair value of 2.808 thousand euro and a negative fair value of 184 thousand euro. As for the transactions entered into, it should be noted that the Group never undertakes speculative transactions.

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

A.1 Supervisory trading book: year-end notional amounts

Underlying assets/ type of derivatives	31.12.2017		31.12.2016	
	Over the counter	Central counterparts	Over the counter	Central counterparts
1. Debt securities and interest rates	361.406	-	419.297	-
a) Options	21.168	-	21.168	-
b) Swaps	340.238	-	398.129	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share in-	30.091	-	30.091	-
a) Options	30.091	-	30.091	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	249.875	-	157.946	-
a) Options	-	-	-	-
b) Swaps	-	-	157.946	-
c) Forwards	249.875	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Goods	-	-	-	-
5. Other underlying assets	-	-	-	-
Total	**641.372**	**-**	**607.334**	**-**

A.3 Financial derivatives: gross positive fair value - breakdown by product

Underlying assets/type of derivatives	Positive fair value			
	31.12.2017		31.12.2016	
	Over the counter	Central counter-parts	Over the counter	Central counter-parts
A. Supervisory trading book	37.367	-	40.282	-
a) Options	-	-	-	-
b) Interest rate swaps	34.514	-	39.885	-
c) Cross currency swaps	-	-	397	-
d) Equity swaps	-	-	-	-
e) Forwards	2.853	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Hedging banking book	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**37.367**	**-**	**40.282**	**-**

BANCA IFIS

A.4 Financial derivatives: gross negative fair value - breakdown by product

Underlying assets/type of derivatives	Negative fair value			
	31.12.2017		31.12.2016	
	Over the counter	Central counter-parts	Over the counter	Central counter-parts
A. Supervisory trading book	38.239	-	48.478	-
a) Options	-	-	-	-
b) Interest rate swaps	37.955	-	46.447	-
c) Cross currency swaps	-	-	2.031	-
d) Equity swaps	-	-	-	-
e) Forwards	284	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Hedging banking book	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**38.239**	**-**	**48.478**	**-**

A.5 Financial derivatives: supervisory trading book: notional values, gross positive and negative fair value by counterparty - contracts not included in netting agreements

Contracts not included in netting agreements	Governments and Central banks	Other public entities	Banks	Financial institutions	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates							
- notional amount	-	-	225.473	-	-	135.933	-
- positive fair value	-	-	14.559	-	-	19.955	-
- negative fair value	-	-	37.955	-	-	-	-
- future exposure	-	-	1.336	-	-	1.045	-
2) Equity instruments and share indexes							
- notional amount	-	-	-	30.091	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	226	-	-	-
3) Currencies and gold							
- notional amount	-	-	228.282	21.593	-	-	-
- positive fair value	-	-	2.808	45	-	-	-
- negative fair value	-	-	184	100	-	-	-
- future exposure	-	-	2.283	216	-	-	-
4) Other amounts							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.9 Residual life of OTC financial derivatives: notional amounts

Underlying assets/Residual life	Up to 1 year	Over 1 to 5 years	Over 5 years	Total
A. Supervisory trading book	**341.411**	**229.218**	**92.335**	**662.964**
A.1 Financial derivatives on debt securities and interest rates	69.944	199.127	92.335	361.406
A.2 Financial derivatives on equity instruments and share indexes	-	30.091	-	30.091
A.3 Financial derivatives on exchange rates and gold	271.467	-	-	271.467
A.4 Financial derivatives on other values	-	-	-	-
B. Banking book	**-**	**-**	**-**	**-**
B.1 Financial derivatives on debt securities and interest rates	-	-	-	-
B.2 Financial derivatives on equity instruments and share indexes	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other values	-	-	-	-
Total 31.12.2017	**341.411**	**229.218**	**92.335**	**662.964**
Total 31.12.2016	**207.898**	**269.107**	**130.329**	**607.334**

1.3 Banking group – Liquidity risk

Qualitative information

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

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

In 2017, the Group implemented a strategy to diversify its funding sources with the main goal of reducing its reliance on retail funding.

At 31 December 2017, the main funding sources were the Bank's equity, online retail funding—consisting of on-demand and term deposits—medium/long-term bonds issued as part of the EMTN programme, funding from the Eurosystem (TLTRO), and the revolving securitisation of the factoring portfolio.

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

The successful diversification strategy pursued throughout 2017, which focused mainly on institutional investors, and the rating the Group received from Fitch were key for reducing funding risk. The significant amount of high-quality liquidity reserves (mainly held with the Bank of Italy) allow to comfortably meet regulatory and internal requirements concerning the prudent management of liquidity risk.

This policy, which negatively affects the economic efficiency of cash management operations, in terms of the rate spread between interbank funding and lending, to guarantee certain and stable liquidity, is adequately supported by the profitability of the Group's operations.

At the moment, the available financial resources are adequate for current and future business volumes. Nonetheless, the Group is constantly striving to improve the state of its financial resources, in terms of both size and cost.

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 for its own direct operations, the Bank has adopted a model for analysing and monitoring present and future liquidity positions as an additional element systematically supporting the Top Management's and the Board of Directors' decisions concerning liquidity. The results of periodic analyses carried out under both normal and stress market conditions are reported directly to the Supervisory Body.

In order to ensure Group-level monitoring and reporting, Banca IFIS has implemented an integration process to include the subsidiaries IFIS Leasing S.p.A. and IFIS Rental Services S.r.l. in the scope of analysis—even though IFIS Rental Services S.r.l. Is not included in the supervisory scope.

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.

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

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

As part of the continuous process of updating internal procedures, and taking into account the changes in the relevant prudential regulations, the Bank has implemented a Group liquidity risk governance and management system.

Quantitative information

1. Distribution by residual contractual duration of financial assets and liabilities - Currency: Euro

Items/Duration	on demand	over 1 day to 7 days	over 7 days to 15 days	over 15 days to 1 month	over 1 month to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	Over 5 years	indefinite life
On-balance-sheet assets	**1.692.132**	**50.101**	**185.744**	**382.727**	**1.117.559**	**438.783**	**447.830**	**1.569.021**	**1.373.832**	**1.347.146**
A.1 Government bonds	-	-	-	-	-	692	692	30.000	393.000	-
A.2 Other debt securities	57	-	-	-	57	373	431	36.741	387.572	-
A.3 UCITS units	4.963	-	-	-	-	-	-	-	-	-
A.4 Loans	1.687.112	50.101	185.744	382.727	1.117.502	437.718	446.707	1.502.280	593.260	1.347.146
- banks	81.983	-	-	444	24.098	18	-	-	-	1.346.957
- customers	1.605.129	50.101	185.744	382.283	1.093.404	437.700	446.707	1.502.280	593.260	189
On-balance-sheet liabilities	**1.198.343**	**51.110**	**56.568**	**138.327**	**1.689.324**	**682.022**	**653.702**	**2.633.625**	**401.969**	**-**
B.1 Deposits and current accounts	1.190.179	49.086	56.568	138.327	1.689.307	676.654	634.586	893.160	1.969	-
- banks	20.815	662	-	15.067	3.505	15	-	-	-	-
- customers	1.169.364	48.424	56.568	123.260	1.685.802	676.639	634.586	893.160	1.969	-
B.2 Debt securities	311	-	-	-	17	5.368	18.079	359.585	400.000	-
B.3 Other liabilities	7.853	2.024	-	-	-	-	1.037	1.380.880	-	-
Off-balance-sheet transactions	**98.959**	**-**	**21.000**	**18.410**	**131.854**	**91.494**	**1.310**	**17.925**	**24.883**	**-**
C.1 Financial derivatives with exchange of underlying assets	-	-	21.000	18.410	131.600	80.000	-	-	-	-
- long positions	-	-	21.000	-	131.600	80.000	-	-	-	-
- short positions	-	-	-	18.410	-	-	-	-	-	-
C.2 Financial derivatives without exchange of underlying assets	72.469	-	-	-	-	-	-	-	-	-
- long positions	34.514	-	-	-	-	-	-	-	-	-
- short positions	37.955	-	-	-	-	-	-	-	-	-
C. 3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C. 4 Irrevocable loan commitments	26.490	-	-	-	254	11.494	1.310	17.925	24.883	-
- long positions	12.015	-	-	-	254	7.313	655	10.057	14.028	-
- short positions	14.475	-	-	-	-	4.181	655	7.868	10.855	-
C.5 financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.6 financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.1 Credit derivatives with exchange of underlying assets	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of underlying assets	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

1. Distribution by residual contractual duration of financial assets and liabilities - Currency: Other currencies

Items/Duration	on demand	over 1 day to 7 days	over 7 days to 15 days	over 15 days to 1 month	over 1 month to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	Over 5 years	indefinite life
On-balance-sheet assets	**52.842**	**22.845**	**54.563**	**20.375**	**62.030**	**7.937**	**8.826**	**45.216**	**2.185**	**-**
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	52.842	22.845	54.563	20.375	62.030	7.937	8.826	45.216	2.185	-
- banks	13.875	20.019	-	-	29.184	-	-	-	-	-
- customers	38.967	2.826	54.563	20.375	32.846	7.937	8.826	45.216	2.185	-
On-balance-sheet liabilities	**218**	**863**	**1.153**	**7.412**	**9.593**	**-**	**-**	**561**	**-**	**-**
B.1 Deposits and current accounts	213	863	1.153	7.412	9.593	-	-	561	-	-
- banks	9	863	1.153	7.412	9.593	-	-	-	-	-
- customers	204	-	-	-	-	-	-	561	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	5	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	**1.190**	**4.268**	**20.838**	**18.490**	**130.640**	**79.906**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of underlying assets	-	-	20.838	18.490	130.640	79.906	-	-	-	-
- long positions	-	-	-	18.490	-	-	-	-	-	-
- short positions	-	-	20.838	-	130.640	79.906	-	-	-	-
C.2 Financial derivatives without exchange of underlying assets	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C. 3 Deposits and loans to be received	-	4.268	-	-	-	-	-	-	-	-
- long positions	-	2.134	-	-	-	-	-	-	-	-
- short positions	-	2.134	-	-	-	-	-	-	-	-
C. 4 Irrevocable loan commitments	1.190	-	-	-	-	-	-	-	-	-
- long positions	595	-	-	-	-	-	-	-	-	-
- short positions	595	-	-	-	-	-	-	-	-	-
C.5 financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.6 financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.1 Credit derivatives with exchange of underlying assets	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of underlying assets	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Self-securitisation transactions

In December 2016, the Banca IFIS Group, through the 100%-owned subsidiary IFIS Leasing S.p.A. (originator), finalised a securitisation that involved selling a portfolio of performing loans totalling 489 million Euro to the special purpose vehicle Indigo Lease S.r.l..

The securitisation was rated by Moody's and DBRS, which will also perform the annual monitoring throughout the term of the transaction.

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

In the third quarter of 2017, the parent Banca IFIS S.p.A. repurchased all the senior notes issued by the vehicle. Therefore, at 31 December 2017 the Banca IFIS Group had subscribed for all the notes issued by the vehicle.

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

Securitisation transactions

As for the securitisations conducted in late 2017 and their purpose, see the comments in the section on credit risks.

Exposure to high risk instruments – disclosure

Considering the goals it pursues and the technical aspects of the securitisation described above, the Banca IFIS Group faces no exposure or risks arising from the trading or holding of structured credit products, whether carried out directly or through unconsolidated special purpose vehicles or entities. In particular, it is important to stress that the securitisation has not removed any risk from the Group's total assets, since the derecognition requirements set by IAS 39 were not met. Meanwhile, the underwriting of the securities arising from the securitisation has not added any risk nor changed the presentation of the assets involved in the securitisation in the financial statements compared to the past. With reference to the Recommendation set out in the Report of the Financial Stability Forum of 7 April 2008, Appendix B, we can state that there are no exposures to instruments deemed highly risky by the market or implying a risk greater than previously expected.

1.4 Banking group — Operational risks

Qualitative information

A. General aspects, management procedures and measurement methods concerning the operational risk

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

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

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

The Risk Management continues consolidating the Loss Data Collection process through 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 2017, the Group organised and provided specific training to all structures on operational risks and the use of the loss data collection software.

In addition, the Group defines and launches specific mitigating measures to bolster operational risk controls. These measures are based on the evidence gathered from the Loss Data Collection process as well as the annual Risk Self Assessment, which allows to identify the main operational problems and therefore establish the most appropriate mitigating measures.

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 finished integrating the overall operational risk management framework, defining a single methodological approach at the Group level as far as the subsidiaries deriving from the acquisition of the former GE Capital Interbanca Group are concerned.

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

Section 3 – Risks of the other entities

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

Part F – Consolidated equity

Section 1 – Consolidated Equity

A. Qualitative information

Managing equity concerns a set of policies and decisions necessary to establish capital levels that are consistent with the assets and risks taken by the Bank. The Banca IFIS Group is subject to the capital adequacy requirements established by the so-called Basel Committee (CRR/CRD IV).

The Board of Directors constantly monitors that the Bank meets the minimum supervisory requirements, and therefore the capital adequacy ratios, as well as complies with the capital limits set out in the Risk Appetite Framework (RAF).

Furthermore, also in accordance with the European Central Bank's recommendation of 28 January 2015, the Bank ensures compliance with capital adequacy ratios through a pay-out policy linked to the achievement of the above minimum capital requirements, as well as the careful assessment of the potential impact of extraordinary financial operations (share capital increases, convertible loans, etc.).

The Group’s capital adequacy is further assessed and monitored every time an extraordinary operation is planned. In these cases, based on available information regarding said operations, the Banca IFIS Group estimates the impact on capital adequacy ratios as well as the RAF, and considers any measures necessary to meet the requirements.

Transactions on treasury shares

At 31 December 2016, the bank held 380.151 treasury shares recognised at a market value of 3,2 million Euro and a par value of 380.151 Euro.

During 2017 Banca IFIS made the following transactions on treasury shares:

- granted a former employee 862 treasury shares with a market value of 40 thousand Euro and a par value of 862 Euro, making profits of 32 thousand Euro that, in compliance with IASs/IFRSs, were recognised under the capital reserve;
- gave 1460 treasury shares with a market value of 49 thousand Euro and a par value of 1.460 Euro to the minority shareholders of the merged entity Interbanca Spa as part of a stock swap, making profits of 37 thousand Euro that, in compliance with IASs/IFRSs, were recognised under the capital reserve.

The remaining balance at the end of the year was 377.829 treasury shares with a market value of 3,2 million Euro and a par value of 377.829 Euro.

B. Quantitative information

B.1 Consolidated equity: breakdown by type of entity

Equity items	Banking group	Insurance companies	Other companies	Consolidation eliminations & adjustments	31.12.2017
Share capital	53.811	-	-	-	53.811
Share premiums	101.864	-	-	-	101.864
Reserves	1.038.155	-	-	-	1.038.155
Prepayments on dividends	-	-	-	-	-
Equity instruments	-	-	-	-	-
(Treasury shares)	(3.168)	-	-	-	(3.168)
Valuation reserves:	(2.710)	-	-	-	(2.710)
- Available for sale financial assets	2.275	-	-	-	2.275
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Foreign investment hedges	-	-	-	-	-
- Cash flow hedges	-	-	-	-	-
- Exchange differences	(5.005)	-	-	-	(5.005)
- Non-current assets under disposal	-	-	-	-	
- Actuarial gains (losses) on defined benefit plans	20	-	-	-	20
- Share of valuations reserves of equity-accounted investments	-	-	-	-	-
- Specific revaluation laws	-	-	-	-	-
Profit (loss) for the year (+/-) of the Group and mi-	180.767	-	-	-	180.767
Equity	**1.368.719**	**-**	**-**	**-**	**1.368.719**

B.2 Valuation reserves of available for sale financial assets: breakdown

Assets/Amounts	Banking group		Insurance companies		Other companies		Consolidation eliminations & adjustments		31.12.2017	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	2.267	-	-	-	-	-	-	-	2.267	-
2. Equity securities	-	(352)	-	-	-	-	-	-	-	(352)
3. UCITS units	360	-	-	-	-	-	-	-	360	-
4. Loans	-	-	-	-	-	-	-	-	-	-
Total 31.12.2017	**2.627**	**(352)**	**-**	**-**	**-**	**-**	**-**	**-**	**2.627**	**(352)**
Total 31.12.2016	**1.535**	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**	**1.535**	**(1)**

B.3 Valuation reserves of available for sale financial assets: annual changes

	Debt securities	Equity securities	UCITS units	Loans
1. Opening balance	**938**	**596**	**-**	**-**
2. Increases	**2.105**	**-**	**360**	**-**
2.1 Fair value gains	2.105	-	360	-
2.2 Reclassification to profit or loss of negative reserves:	-	-	-	-
- from impairment losses	-	-	-	-
- from realisation	-	-	-	-
2.3 Other changes	-	-	-	-
3. Reductions	**776**	**948**	**-**	**-**
3.1 Fair value losses	-	948	-	-
3.2 Impairment losses	-	-	-	-
3.3 Reclassification to profit or loss of positive reserves:	776	-	-	-
- from realisation	776	-	-	-
3.4 Other changes	-	-	-	-
4. Closing balance	**2.267**	**(352)**	**360**	**-**

Section 2 – Own funds and prudential ratios

2.1 Scope of application of the law

Consolidated own funds, risk-weighted assets and capital ratios at 31 December 2017 were determined based on the regulatory principles set out in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) dated 26 June 2013, which were transposed in the Bank of Italy's Circulars no. 285 and 286 of 17 December 2013.
Article 19 of the CRR requires to include the unconsolidated Holding of the Banking Group in prudential consolidation.
The measures concerning Own Funds provide for the gradual phase-in of a new regulatory framework (CRR – Part Ten), with a transitional period lasting until 2017 during which some elements that will be accounted for or deducted in full once the provisions become effective will have only a limited impact.

2.2 Banking own funds

A. Qualitative information

1. Common equity Tier 1 Capital (CET1)

A) Common equity Tier 1 Capital (CET1)

This item includes:

- 11,1 million Euro in paid-up capital instruments;
- 10,9 million Euro in share premium;
- 1,4 million Euro own CET1 instruments held directly;
- 687,2 million Euro in other reserves, including retained earnings. Specifically, this item includes profit recognised under Own Funds (CRR - article 26), less the dividends expected to be paid to the owners of the Parent, amounting to 56,0 million Euro;
- other items of comprehensive income, negative to the tune of 1,5 million Euro and consisting of:
    - 0,1 million Euro in the negative reserve for actuarial losses deriving from defined-benefit plans in accordance with IAS19;

  - 1,1 million Euro in positive reserves for available for sale financial assets;
  - 2,5 million Euro in negative reserves from exchange differences;
- 351,4 million Euro in minority interests eligible as CET1, including 74,7 million Euro subject to transitional provisions (CRR - article 480 par. 1 and 2 letter d)

D) Items to be deducted from CET1

This item includes:

- 59,4 million Euro in goodwill and other intangible assets.
- 171,3 million Euro in deferred tax assets that rely on future profitability and do not arise from temporary differences, net of the relevant tax liabilities.

E) Transitional regime - Impact on CET1 (+/-), including minority interests subject to transitional provisions

This item includes:

- 1,3 million Euro in unrealised gains on AFS securities (-) (CRR - article 468 par. 1 and 2 letter c);
- positive filter on negative actuarial reserves (IAS 19), amounting to 40 thousand Euro (+) (CRR – article 473 par. 3 and 4 letter d);
- 34,3 million Euro in deferred tax assets that rely on future profitability and do not arise from temporary differences, net of the relevant tax liabilities (+) (CRR – article 469 par. 1 letter a) and article 478 par. 1 letter d).

2. Additional Tier 1 Capital (AT1)

G) Additional Tier 1 Capital (AT1) gross of items to be deducted and the effects of the transitional regime

This item includes 48,0 million Euro in minority interests;

I) Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries that are given recognition in AT1 pursuant to transitional provisions

This item includes 9,6 million Euro in minority interests subject to transitional provisions (-) (CRR - article 480 par. 1 and 2 letter d).

3. Tier 2 Capital (T2)

M) Tier 2 Capital (T2) gross of items to be deducted and the effects of the transitional regime

This item includes:

- 201,9 million Euro in fully paid-up subordinated loans eligible as Tier 2 Capital;
- 63,9 million Euro in minority interests;

O) Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries recognised in T2 pursuant to transitional provisions

This item includes:

- 26,8 million Euro in minority interests subject to transitional provisions (CRR - Art. 480 par. 1 and 2 letter d);
- 0,1 million Euro in unrealised gains on AFS equity instruments subject to transitional provisions (CRR – Art. 468 par 1 and 2 letter c)

B. Quantitative information

	31.12.2017	31.12.2016 RESTATED
A. Common Equity Tier 1[(1)] (CET1) before application of prudential filters	**982.902**	**1.094.699**
of which CET1 instruments subject to transitional provisions	**-**	**-**
B. CET1 prudential filters (+/-)	-	**-**
C. CET1 gross of items to be deducted and the effects of the transitional regime (A+/-B)	982.902	1.094.699
D. Items to be deducted from CET1	230.658	150.165
E. Transitional regime - Impact on CET1 (+/-), including minority interests subject to transitional provisions	107.700	93.698
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**859.944**	**1.038.232**
G. Additional Tier 1 Capital (AT1) gross of items to be deducted and the effects of the transitional regime	48.014	29.145
of which AT1 instruments subject to transitional provisions	-	-
H. Items to be deducted from AT1	-	-
I. Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries that are given recognition in AT1 pursuant to transitional provisions	(9.602)	(11.658)
L. Total Additional Tier 1 Capital (AT1) (G-H+/-I)	**38.412**	**17.487**
M. Tier 2 Capital (T2) gross of items to be deducted and the effects of the transitional regime	265.807	38.841
of which T2 instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	-	-
O. Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries that are given recognition in T2 pursuant to transitional provisions	26.934	(15.460)
P. Total Tier 2 Capital (T2) (M-N+/-O)	**292.741**	**23.381**
Q. Total own funds (F+L+P)	**1.191.097**	**1.079.100**

(1) Common Equity Tier 1 capital includes the profit for the period net of estimated dividends.

The approximately 112 million Euro increase in Own Funds compared to 31 December 2016 was largely attributable to:

- 56,0 million Euro arising from the inclusion of the profit for the year attributable to the Group and calculated for regulatory purposes, net of the estimated dividend;
- 137,0 million Euro arising from the deduction of 80% of "Deferred tax assets that rely on future profitability and do not arise from temporary differences" (net of the relevant deferred tax liabilities) from CET1, up from 59,7 million Euro (i.e. the 60% deducted at 31 December 2016), in accordance with the new regulatory framework of the measures concerning own funds that will be gradually phased in with a transitional period lasting until 2017. In this regard, please note that this deduction, which is to become fully effective in 2018, will be gradually absorbed by the future use of such deferred tax assets;
- 65,1 million Euro arising from the decline in the proportion of eligible minority interests, pursuant to Article 84 of the CRR;
- the subordinated bond issued in 2017, with a par value of 400 million Euro and eligible as Tier 2 (T2) capital for 201,9 million Euro, as the share attributable to the Banking Group's Holding.

2.3 Capital adequacy

A. Qualitative information

Total risk-weighted assets rose by more than 360 million Euro, in line with the significant increase in loans to customers and banks.
In light of the above, at 31 December 2017 the Banca IFIS Banking Group reported the following consolidated capital adequacy ratios:

- CET1 capital ratio: 11,66%;
- Tier1 capital ratio: 12,18%;
- Total capital ratio: 16,15%.

Although risk-weighted assets grew during the year, the considerable increase in total Own Funds caused the Total capital ratio to rise sharply from 15,39% at 31 December 2016.
Meanwhile, the Common Equity Tier 1 ratio, which amounted to 11,66%, was negatively affected by the decline in the proportion of eligible minority interests, in accordance with Art. 84 of the CRR, as well as the higher deduction applied (80%) to the increase in deferred tax assets that rely on future profitability and do not arise from temporary differences. However, this deduction will be gradually absorbed by the future use of such deferred tax assets.
Pursuant to Article 92 of the CRR, the Banca IFIS Banking Group must meet the following minimum capital requirements: Common Equity Tier 1 (CET1) ratio of 4,5%, Tier 1 ratio of 6%, and Total Capital ratio of 8%.
In addition, the Banca IFIS Banking Group must meet the capital requirements set on an annual basis following the Supervisory Review and Evaluation Process (SREP) conducted by the Bank of Italy. After the most recent supervisory review and evaluation process, carried out in 2016 to review the capitalisation targets for Italy's largest intermediaries, the Bank of Italy required the Banca IFIS Banking Group to meet the following capital requirements at the consolidated level:

- common equity tier 1 (CET 1) capital ratio of 6,6%, with a required minimum of 5,3%;
- Tier 1 capital ratio of 8,4%, with a required minimum of 7,1%;
- Total Capital ratio of 10,7%, with a required minimum of 9,5%.

The Banca IFIS Banking Group comfortably meets the requirements laid down in Article 92 of the CRR as well as those deriving from the SREP.
The Group holds nearly 509 million Euro of capital in excess of the minimum requirement for 2017, set at 9,25%.
Considering the 0,625% increase in the capital conservation buffer planned for 2018, which will bring the minimum prudential requirement to 9,88%, the capital surplus amounts to approximately 462 million Euro.

B. Quantitative information

Categories/Amounts	Non-weighted amounts		Weighted amounts / requirements	
	31.12.2017	31.12.2016 RESTATED	31.12.2017	31.12.2016 RESTATED
A. RISK ASSETS				
A.1 Credit risk and counterparty risk	**10.010.754**	**9.258.363**	**6.501.214**	**6.202.666**
1. Standardised approach	10.010.754	9.258.363	6.501.214	6.202.666
2. Internal rating method				
2.1 Basic indicator approach	-	-	-	-
2.2 Advanced measurement approach	-	-	-	-
3. Securitisation programmes	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit risk and counterparty risk			**520.097**	**496.213**
B.2 Credit and counterparty valuation adjustment risk			**1.727**	**2.340**
B.3 Settlement risk			**-**	**-**
B.4 Market risks				
1. Standard method			1.166	3.482
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk				
1. Basic indicator approach			67.138	59.010
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation factors			**-**	**-**
B.7 Total prudential requirements			**590.128**	**561.045**
C. RISK ASSETS AND CAPITAL REQUIREMENT RATIOS				
C.1 Risk-weighted assets			7.376.606	7.013.074
C.2 Common equity tier 1 capital / Risk-weighted assets (CET1 Capital ratio)			11,66	14,80
C.2 Tier 1 Capital / Risk-weighted assets (Tier 1 capital ratio)			12,18	15,05
C.4 Total own funds / Risk-weighted assets (Total capital ratio)			16,15	15,39

Part G – Business combinations

Section 1 - Transactions carried out during the year

In July 2017, the Banca IFIS Group obtained control of Two Solar Park 2008 S.r.l. as part of a debt restructuring. The company, which operates in the renewable electricity industry, owns and runs 4 photovoltaic plants in the Apulia region.

DENOMINAZIONE	DATA OPERAZIONE	(1)	(2)	(3)	(4)
Two Solar Park 2008 S.r.l.	29 luglio 2017	-	100%	516	453

Key:

(1) = cost of the transaction, subject to a price adjustment mechanism
(2) = Percentage interest acquired carrying voting rights in the annual general meeting
(3) = Group's profit/loss from operations.
(4) = Group net profit/loss for the year

Here below are the financial highlights at the date control was acquired and at 31 December 2017:

DATI PATRIMONIALI (in migliaia di Euro)	31.07.2017	31.12.201
Attività Materiali	17.732	17.
Attività fiscali	1.220	1.
Altre attività	3.391	2.
Debiti verso banche	(22.736)	(22.2
Altre passività (incluse passività fiscali)	(2.055)	(1.1

Section 2 - Transactions carried out after the end of the year

On 2 February 2018, the Bank finalised the acquisition of 100% of Cap.Ital.Fin. S.p.A., a company specialising in salary-backed loans and salary or pension deductions for retirees as well as private- and public-sector and government employees. The consideration for the transaction amounted to nearly 2 million Euro and is subject to a price adjustment mechanism to be calculated based on the financial position of the acquiree at the effective date, which, at the reporting date, had not yet been finalised.

Section 3 – Retrospective adjustments

As mentioned in the paragraph "Introductory notes on how to read the data" in the Directors' report, Concerning the cost for the acquisition of the former GE Capital Interbanca Group, provisionally estimated at 119,2 million Euro, in July the Group and the seller agreed to additional adjustments, bringing the final acquisition cost to 109,4 million Euro. The impact of this price adjustment was applied retrospectively to the reporting period ended 31 December 2016. Therefore, at 1 January 2017 the statement of financial position and equity were restated, adding 9,8 million Euro to item 160 "Other assets" as well as Equity because of the increase in the profit for the year. This restatement had a corresponding effect on profit or loss at 31 December 2017, causing an equal increase in line item 220 Other operating income/expenses and, therefore, the profit for the year.

Part H – Related-party transactions

In compliance with the provisions of Consob resolution no. 17221 of 12 March 2010 (as subsequently amended by means of Resolution no. 17389 of 23 June 2010) and the provisions of Circular 263/2006 (Title V, Chapter 5) of the Bank of Italy, Banca IFIS prepared the procedure relating to transactions with "related parties". The latest version was approved by the Board of Directors on 6 March 2018. This document is publicly available on Banca IFIS's website, www.bancaifis.it , in the 'Corporate Governance' Section.

During 2017, no significant transactions with related parties were undertaken.

At 31 December 2017, the Banca IFIS Group S.p.A. was owned by La Scogliera S.p.A. and consisted of the parent company Banca IFIS S.p.A., the wholly-owned subsidiary IFIS Finance Sp. Z o. o., IFIS Leasing S.p.A., IFIS Rental Services S.r.l., IFIS NPL S.p.A., and Two Solar Park 2008 S.r.l..

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

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

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

1. Information on the remuneration of key management personnel

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

In compliance with the provisions of the Bank of Italy's Circular no. 262 of 22 December 2005 (4th update of 16 December 2015), 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
5.105	-	238	94	530

The above information includes fees paid to Directors (3,4 million Euro, gross amount) and Statutory Auditors (298 thousand Euro, gross amount).

2. Information on related-party transactions

Here below are the assets, liabilities, guarantees and commitments outstanding at 31 December 2017, broken down by type of related party pursuant to IAS 24.

Items	Parent company	Key management personnel	Other related parties	Total	As a % of the item
Available for sale financial assets	-	-	6.567	**6.567**	1,4%
Loans to customers	-	-	5.812	**5.812**	0,1%
Other assets	107.698	-		**107.698**	39,5%
Total assets	**107.698**	**-**	**12.379**	**120.077**	1,3%
Due to customers	-	413	1.017	**1.430**	0,0%
AFS reserve	-	-	75	**75**	3,3%
Total liabilities	**-**	**413**	**1.091**	**1.505**	0,0%

Items	Parent company	Key management personnel	Other related parties	Total	As a % of the item
Interest receivable	-	-	4.042	**4.042**	0,7%
Interest due	-	(3)	(9)	**(12)**	0,0%
Commission income	-	-	16	**16**	0,0%
Reversals on receivables	-	-	346	**346**	(0,7)%
Other administrative expenses	-	-	(30)	**(30)**	0,0%

The transactions with the **parent company** concern the application of group taxation (tax consolidation) in accordance with arts. 117 et seq. of Italian Presidential Decree 917/86. Transactions between these companies were regulated by means of a private written agreement between the parties, signed in the month of April 2016. This agreement will lapse after three years. Banca IFIS has 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 of Banca IFIS and the subsidiary IFIS Rental Services is transferred to La Scogliera S.p.A., which is responsible for calculating the overall group income. As a result, at 31 December 2017 Banca IFIS recognised a net receivable due from the parent company amounting to 105,1 million Euro, and a 2,6 million Euro net receivable due from IFIS Rental Services.

Transactions with **key management personnel** relate almost entirely to rendimax or contomax savings accounts.

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

During the year, the Bank continued its factoring operations in favour of one company headed by close relatives of executive members of the Board of Directors: the Banca IFIS Group's exposure at 31 December 2017 amounted to 0.5 million Euro.

There was a net 1,2 million Euro exposure classified under bad loans towards a company backed by close relatives of members of the Board of Directors.

There were also transactions with two entities in which Banca IFIS owns an equity interest of more than 20% and recognised as available for sale financial assets amounting to 6,6 million Euro.

The transactions are related to 4,1 million Euro worth of loans.

Part I – Share-based payments

A. Qualitative information

1. Description of share-based payment agreements

Top Management's remuneration consists of fixed pay and variable pay calculated as a percentage of consolidated profit gross of taxes.

Variable pay, which is limited to a maximum proportional to fixed pay, is paid partly upfront and partly deferred.

Upfront variable pay is awarded and paid after the approval of the financial statements and ICAAP report for the year to which it refers.

Deferred variable pay is deferred by three years and is not paid if:

- there is a pre-tax loss;
- in one of the three years following its determination, "overall capital" is reported to be less than "overall internal capital" in the "ICAAP report" to be submitted every year to the Bank of Italy;
- at the end of the third year, the recipient is no longer in the position for which pay was awarded.

Starting from 2014, variable pay is paid 50% in cash and 50% in Banca IFIS S.p.A. shares. This applies to both upfront and deferred variable pay.

For this purpose, the Bank plans to use treasury shares in its portfolio; the reference price for determining the number of shares to the value of the variable pay concerned will be the average share price for the period from 1 April through 30 April of the year the compensation is awarded and paid.

Upfront variable pay can be clawed back if in the year following its award the right to it has not vested.

B. Quantitative information

The table on annual changes is not presented here, since for the Banca IFIS Group share-based payment agreements do not fall within the category concerned by said table.

2. Other information

The portion to be settled in shares of Top Management's variable pay awarded for the year 2017 amounts to 530 thousand Euro: the number of shares to be awarded will be calculated as described above.

Part L - Segment reporting

The model for segment reporting is in line with the organisational structure used by the Head Office to analyse Group results, which, following the acquisition of the former GE Capital Interbanca Group on 30 November 2016, now includes two new sectors: Corporate Banking and Leasing. Since the data related to the comparative period for these new sectors refers exclusively to the month of December 2016, the comparison is not significant.

Therefore, the organisational structure consists of the following segments: Trade receivables, Corporate banking, Leasing, NPL Area, Tax receivables, Governance and Services.

The Governance and Services segment manages the Group's financial resources and allocates funding costs to operating segments through the Group's internal transfer rate system.

external changes, in terms of market rates, as well as internal changes, in terms of composition and funding rates, required updating internal transfer rates during 2017. To facilitate the comparison of the two reference periods, the 2016 results have been restated according to the 2017 funding approach.

Trade receivables

This segment includes the following business areas:

- Crediti Commerciali Italia and Crediti Commerciali International, dedicated to supporting the trade receivables of SMEs operating in the domestic market as well as companies growing abroad or based abroad and working with Italian customers; this area includes the operations carried out in Poland by the investee IFIS Finance's Sp. Z o.o.;
- Banca IFIS Pharma, supporting the trade receivables of local health services' suppliers and pharmacists.

Corporate Banking

This segment includes the following business areas:

- Medium/long-term financing, supporting the company's operating cycle through services ranging from working capital financing to the support for productive investments;
- Structured Finance, supporting companies and private equity funds in the legal, organisational and financial arrangement of bilateral or syndicated loans;
- Workout & Recovery, which manages the UTPs and Bad Loans of all the portfolios of the sector's other two business areas, as well as the runoff of project finance, shipping and real estate portfolios.
- Special Situation, which provides new medium- and long-term financing to support the financial recovery of businesses that managed to overcome financial distress.

Leasing

This sector provides finance and operating leases—but not real estate leases, as the Group does not offer them—to small economic operators and SMEs.

NPL Area

This is the Banca IFIS Group's business area dedicated to non-recourse factoring and managing mostly unsecured distressed retail loans.

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

The Bank manages the portfolio of acquired receivables using two different methods: non-judicial and judicial operations.

Right after the acquisition, pending the completion of information retrieval operations to help decide the most appropriate debt collection method, the receivable is classified in a so-called “staging” area and recognised at cost (94 million Euro at 31 December 2017) with no contribution to profit or loss.

After this phase, which usually lasts between 6 and 12 months, the NPL Area decides the most appropriate method for managing the receivables; non-judicial operations mainly consist in collecting debts by finalising bills of exchange and settlement plans with the debtor, whereas judicial operations consist in collecting debts through legal actions to secure a court order for the garnishment of one fifth of pension benefits or wages.

As for the positions not eligible for judicial operations, after completing the groundwork for processing them, they are classified in a “collective” portfolio pending the collection of the mentioned settlement plans. In this phase, the positions are measured at amortised cost (153,4 million Euro at 31 December 2017), calculated as the net present value of estimated cash flows based on an internal model that projects the “breakdown” of the nominal amount of the receivable “over time” based on the historical recovery profile for similar clusters.

When finalising a settlement plan or bill exchange, for which an amount of at least 3 times the average instalment has been paid at the collection date, the positions included in this portfolio will be reclassified to “Positions with formalised bills of exchange or settlement plans”; these are measured at amortised cost (131,3 million Euro at 31 December 2017), calculated as the net present value of estimated cash flows based on the settlement plans, net of the historical default rate.

The positions eligible for judicial operations are managed accordingly. On average, it takes 24 months to secure a garnishment order. During this time, the positions are recognised at cost (297,5 million Euro at 31 December 2017) with no contribution to profit or loss. After obtaining the court's garnishment order, the positions are classified as “Positions with order for the garnishment of one-fifth of pension benefits or wages” and measured at amortised cost (123,4 million Euro at 31 December 2017), calculated as the net present value of estimated cash flows considering the debtor's age and the risk of loss of employment.

Throughout the various phases, the positions may be written off as part of a settlement agreement or, to a lesser extent, collection plans, or reclassified to the collective portfolio if the debtors default on their payments under the agreed plans or garnishment orders.

There are also less significant portfolios originated in corporate banking or real estate segments that are measured either individually or, if no valuation models are available, at cost.

Finally, the Bank occasionally seizes market opportunities by selling portfolios of positions yet to be processed to third parties.

Please refer to Part A – Accounting policies of the Notes to the Consolidated Financial Statements for more details on the measurement of these receivables.

Tax receivables

It is the segment specialised in purchasing tax receivables arising from insolvency proceedings; it operates under the Fast Finance brand and offers to buy both accrued and accruing tax receivables on which repayment has already been requested or which shall be requested in the future, and that arose during insolvency proceedings or in prior years. As a complement to its core business, this segment seldom acquires also trade receivables from insolvency proceedings.

Governance and services

Governance and Services provides the segments operating in the Bank's core businesses with the financial resources and services necessary to perform their respective activities. The segment comprises, among other things, the resources required for the performance of the services of the Audit, Administration-Accounting, Planning, Organisation, ICT, Marketing and Communication, and HR functions, as well as the structures responsible for raising, managing and allocating financial resources to the operating segments. The reported amounts are net of transactions between segments.

Here below are the results achieved in 2017 by the various business segments.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Available for sale financial assets							
Amounts at 31.12.2017	-	-	-	-	-	456.549	**456.549**
Amounts at 31.12.2016	-	-	-	-	-	*374.229*	***374.229***
% Change	-	-	-	-	-	*22,0%*	***22,0%***
Due from banks							
Amounts at 31.12.2017	-	-	-	-	-	1.777.876	**1.777.876**
Amounts at 31.12.2016	-	-	-	-	-	*1.393.358*	***1.393.358***
% Change	-	-	-	-	-	*27,6%*	***27,6%***
Loans to customers							
Amounts at 31.12.2017	3.039.776	1.059.733	1.388.501	799.436	130.571	17.789	**6.435.806**
Amounts at 31.12.2016	*3.092.488*	*905.682*	*1.235.638*	*562.146*	*124.697*	*7.561*	***5.928.212***
% Change	*(1,7)%*	*17,0%*	*12,4%*	*42,2%*	*4,7%*	*135,3%*	***8,6%***
Due to banks							
Amounts at 31.12.2017	-	-	-	-	-	791.977	**791.977**
Amounts at 31.12.2016	-	-	-	-	-	*503.964*	***503.964***
% Change	-	-	-	-	-	*57,1%*	***57,1%***
Due to customers							
Amounts at 31.12.2017	-	-	-	-	-	5.293.188	**5.293.188**
Amounts at 31.12.2016	-	-	-	-	-	5.045.136	***5.045.136***
% Change	-	-	-	-	-	*4,9%*	***4,9%***
Debt securities issued							
Amounts at 31.12.2017	-	-	-	-	-	1.639.994	**1.639.994**
Amounts at 31.12.2016	-	-	-	-	-	1.488.556	***1.488.556***
% Change	-	-	-	-	-	*10,2%*	***10,2%***

INCOME STATEMENT DATA (in thousands of Euro)	TRADE RECEIVA-BLES	CORPO-RATE BANKING	LEASING	NPL AREA	TAX RECEIVA-BLES	GOVERN-ANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income							
Amounts at 31.12.2017	130.815	146.065	62.677	197.971	15.594	(14)	**553.108**
Amounts at 31.12.2016	*148.514*	*2.952*	*(1.172)*	*180.946*	*13.323*	*14.036*	**358.599**
% Change	*(11,9)%*	*n.s.*	*n.s.*	*9,4%*	*17,0%*	*(100,1)%*	***54,2%***
Net profit (loss) from financial activities							
Amounts at 31.12.2017	97.174	174.420	54.638	164.506	15.296	(1.207)	**504.827**
Amounts at 31.12.2016	*128.208*	*2.889*	*(2.682)*	*148.319*	*12.953*	*9.679*	***299.366***
% Change	*(24,2)%*	*n.s.*	*n.s.*	*10,9%*	*18,1%*	*(112,5)%*	***68,6%***

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	TRADE RECEIVA-BLES	CORPO-RATE BANKING	LEASING	NPL AREA	TAX RECEIVA-BLES	GOVERN-ANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income							
Fourth quarter 2017	33.222	37.286	16.148	66.543	3.561	1.971	158.731
Fourth quarter 2016	*46.814*	*2.952*	*(1.172)*	*49.980*	*2.967*	*(4.214)*	*97.327*
% Change	*(29,0)%*	*n.s.*	*n.s.*	*33,1%*	*20,0%*	*(146,8)%*	*63,1%*
Net profit (loss) from financial activities							
Fourth quarter 2017	13.757	*26.683*	*12.117*	56.141	3.478	910	113.086
Fourth quarter 2016	*41.732*	*2.889*	*(2.682)*	*40.936*	*2.866*	*(4.572)*	*81.169*
% Change	*(67,0)%*	*n.s.*	*n.s.*	*37,1%*	*21,4%*	*(119,9)%*	*39,3%*

SEGMENT KPIs (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES
Turnover (1)						
Amounts at 31.12.2017	11.715.442	n.a.	n.a.	n.a.	n.a.	n.a.
Amounts at 31.12.2016	*10.549.881*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
% Change	*11,0%*	-	-	-	-	-
Nominal amount of receivables managed						
Amounts at 31.12.2017	3.768.877	1.892.310	1.518.719	13.074.933	174.522	18.125
Amounts at 31.12.2016	*3.880.835*	*1.739.175*	*1.273.933*	*9.660.196*	*172.145*	-
% Change	*(2,9)%*	*8,8%*	*19,2%*	*35,3%*	*1,4%*	*n.a.*
Cost of credit quality						
Amounts at 31.12.2017	1,15%	*(1,53)%*	0,58%	n.a.	n.a.	n.a.
Amounts at 31.12.2016	*0,79%*	*0,08%*	*1,47%*	*n.a.*	*n.a.*	*n.a.*
% Change	*0,36%*	*(1,61)%*	*(0,89)%*	-	-	-
Net bad loans/Loans to customers						
Amounts at 31.12.2017	1,0%	2,7%	1,1%	66,1%	0,0%	1,2%
Amounts at 31.12.2016	*1,0%*	*3,0%*	*0,5%*	*57,0%*	0,0%	0,0%
% Change	*0,0%*	*(0,3)%*	*0,6%*	*9,1%*	*0,0%*	*1,2%*
Coverage ratio on gross bad loans						
Amounts at 31.12.2017	89,1%	93,5%	80,9%	n.a.	n.a.	38.9%
Amounts at 31.12.2016	*88,5%*	*94,0%*	*92,2%*	*n.a.*	*n.a.*	-
% Change	*0,6%*	*(0,5)%*	*(11,3)%*	-	-	*n.a.*
Non-performing exposures/Loans to customers						
Amounts at 31.12.2017	7,2%	14,3%	2,4%	99,9%	0,0%	12,7%
Amounts at 31.12.2016	*6,5%*	*19,0%*	*3,0%*	*100,0%*	*0,2%*	*0,0%*
% Change	*0,7%*	*(4,7)%*	*(0,6)%*	*(0,1)%*	*(0,2)%*	*12,7%*
RWAs(2) (3)						
Amounts at 31.12.2017	2.554.528	1.050.284	929.192	801.914	50.325	290.905
Amounts at 31.12.2016	*2.348.131*	*929.337*	*875.153*	*562.146*	*50.004*	*263.512*
% Change	*8,8%*	*13,0%*	*6,2%*	*42,7%*	*0,6%*	*10,4%*

(1) Gross flow of the receivables sold by the customers in a specific period of time.
(2) Risk Weighted Assets; the amount refers exclusively to the financial items reported in the segments.
(3) The Governance and Services segment's RWAs include the investment in IFIS Rental Services, a non-financial company consolidated using the equity method and that is not part of the Banking Group for regulatory purposes.

For a more detailed analysis of the results of the business sectors, please refer to the Directors' Report.

Venice - Mestre, 06 March 2018

For the Board of Directors

The Chairman

Sebastien Egon Fürstenberg

The C.E.O.

Giovanni Bossi

Country-by-country reporting

Reference date 31 December 2017

Pursuant to the supervisory provisions for banks

Bank of Italy Circular no. 285/2013 – Part I – Title III – Chapter 2

In order to increase the EU public's trust in the financial sector, here below is the information as per the Annex A of Part I, Title III, Chapter 2 of Bank of Italy's Circular No. 285.

The information refers to the situation at 31 December 2017.

	INFORMATION/GEOGRAPHIC AREA	ITALY	POLAND	GROUP
a)	Company name	Banca IFIS S.p.A. Ifis Leasing S.p.A. Ifis Rental Services S.r.l.	IFIS Finance Sp. Z o.o.	Banca IFIS S.p.A. Group
	Nature of business	Collecting savings from the public and lending. Banca IFIS specialises in the segment of trade receivables, medium/long-term corporate lending and structured finance, leasing, distressed retail loans and tax receivables.	IFIS Finance provides financial support and credit management services to businesses.	Collecting savings from the public and lending. Banca IFIS specialises in the segment of trade receivables, distressed retail loans and tax receivables.
b)	Turnover[18] *(in thousands of Euro)*	539.938	2.288	553.108
c)	Number of full-time equivalents [19]	1.366	12	1.378
(d)	Pre-tax profit or loss *(in thousands of Euro)*	235.853	1.100	248.575
e)	Income tax *(in thousands of Euro)*	(61.797)	(224)	(67.808)
f)	*Government grants received* *(in thousands of Euro)*	-	-	-

[18] Turnover corresponds to the Net Banking Income as per item 120 of the Consolidated Income Statement at 31 December 2017.

[19] The "Number of full-time equivalents" is calculated, in accordance with the relevant Provisions, as the ratio of total hours worked by all employees (including overtime) and the total contract work hours per year of a full-time employee (i.e. the total available work hours in a year excluding 20 days of annual leave).

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

Certication of the consolidated financial statements pursuant to the provisions of art. 154-bis, paragraph 5, othe 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, Giovanni Bossi – CEO and Mariacristina Taormina – in her capacity as Manager charged with preparing the financial reports of Banca IFIS S.p.A., having also taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of the Italian Legislative Decree no.58 dated 24 February 1998, hereby certify:
   i. the adequacy in relation to the characteristics of the Company,
   ii. the effective implementation

   of the administrative and accounting procedures for the preparation of Banca IFIS's consolidated financial statements, over the course of the period from January 1st, 2017 to December 31st, 2017.

2. The adequacy of the administrative and accounting procedures in place for preparing the consolidated financial statements as at December 31st, 2017 has been assessed through a process established by Banca IFIS S.p.A. on the basis of the guidelines set out in the *Internal Control – Integrated Framework* issued by the *Committee of Sponsoring Organizations of the Treadway Commission (CoSO)*, an internationally accepted reference framework.

3. The undersigned further confirm that:

   3.1 the consolidated financial statements as at December 31st, 2017:
   a) are prepared in compliance with International Accounting Standards, endorsed by the European Commission as for European regulation no. 1606/2002 of the European Parliament and Council of July 19th, 2002;
   b) correspond to the related books and accounting records;
   c) provide a true and correct representation of the financial position of the issuer and the group of companies included in the scope of consolidation.

   3.2 the management report contains a reliable analysis of the business outlook and management result, the financial position of the issuer and group of companies included in the scope of consolidation and a description of the main risks and uncertainties they are exposed to.

Venice, March 6th, 2018

CEO

Giovanni Bossi

Manager charged with preparing the Company's financial reports

Mariacristina Taormina

Board of Statutory Auditors' report

REPORT OF THE BOARD OF STATUTORY AUDITORS
to the FINANCIAL STATEMENTS as at 31st December 2017

(Translation from the original Italian text)

Dear Shareholders,

With this report - prepared pursuant to article 153 of Legislative Decree 58/1998 and to article 2429, paragraph 2 of the Italian Civil Code - the Board of Statutory Auditors of Banca IFIS S.p.A. hereby informs you of the supervisory and control activities carried out in the performance of their duties, during the year ended 31 December 2017.

1. Activities of the Board of Statutory Auditors

During the year 2017, the Board of Statutory Auditors carried out their institutional tasks in accordance with the rules of the Italian Civil Code and with Legislative Decrees no. 385/1993 (1993 Banking Law), no. 39/2010 and no. 58/1998 (Consolidated Law on Finance), of the By-Laws, in addition to being in compliance with those issued by the public authorities that exercise activities of supervision and control, also taking into account the principles of conduct recommended by the National Council of Chartered Accountants in the document of 15 April 2015.

During the year, the Board of Statutory Auditors performed its duties, holding 26 meetings, of which 6 were held jointly with the Risk Management and Internal Control Committee.
The Board of Statutory Auditors also participated in 21 meetings of the Board of Directors.
The Chairman of the Board of Statutory Auditors or another Auditor also participated in the meetings of the Risk Management and Internal Control Committee, of the Appointments Committee and of the Remuneration Committee.

The minutes of the Board of Statutory Auditors, which sometimes contain explicit recommendations to rapidly resolve difficulties that have come to light, are always sent in their entirety to the CEO and to the General Manager. The Chairman of the Risk Management and Internal Control Committee is constantly invited to attend meetings of the Board of Statutory Auditors. It is believed that such attendance will ensure an adequate flow of information between the committees within the Board of Directors.
The Head of Internal Auditing also attends the meetings of the Board of Statutory Auditors, as a permanent invitee for the continuous interaction with the corporate function of third-level control.

2. Significant operations of the year

In carrying out the activities of supervision and control, the Board of Statutory Auditors obtained periodically from the Directors, including through the participation in meetings of the Board of Directors, information on the activities carried out and on the most important economic, financial and asset liability operations approved and implemented by the Bank and by the subsidiaries, also pursuant to art. 150, paragraph 1 of the Consolidated Law on Finance.

During the year, the project for company simplification following the purchase of the Interbanca Group continued. IFIS Factoring S.r.l. and Interbanca S.p.A. were merged, allowing for a more efficient line of management and control.

As a consequence, the scope of consolidation has changed in comparison to the previous year and, as of 31 December 2017, also includes the companies IFIS Finance Sp. Z o.o and IFIS Leasing S.r.l. as well as IFIS Rental Services S.r.l., a non-regulated company.

Among the significant events of 2017, the details of which are provided in the Management Report and the Explanatory Notes, it has been considered appropriate to report the following:

- the obtaining of a rating from Fitch (BB, with stable outlook);
- the issuing of senior unsecured bonds for 300 million;
- the issuing of Tier 2 subordinate bonds for 400 million.

It is also deemed useful to report that the Bank has signed binding agreements for the purchase of Cap.Ital.Fin S.p.A., a company operating in salary-backed loans, the ownership of which was purchased on 2 February 2018. Furthermore, the Bank continued with the setting up of IFIS NPL S.p.A.; both companies are enrolled in the register pursuant to article 106 of the Consolidated Banking Law.
Finally, during the year 2017, the Bank proceeded with the conversion of a non-performing loan that had been granted by the previous administration, Interbanca S.p.A., equal to the entire sum of the capital of Two Solar Park 2008 S.r.l..

3. Supervisory activities

3.1 – Supervisory activities on the observance of the law, the By-Laws and the Self-Governance Code for listed companies

On the basis of the information obtained through its own supervisory activities, the Board of Statutory Auditors was not made aware of any operations that had not been conducted in compliance with the principles of correct management and that had not been approved and implemented in accordance with the law and with the By-Laws, which were contrary to the interests of the Bank, that were in contrast with the resolutions passed by the Shareholders' Meeting, that were imprudent or risky or were such as to compromise the integrity of the corporate assets.

The Board of Statutory Auditors was not made aware of any operations that could pose conflicts of interest.

The Board of Statutory Auditors monitored compliance of the Procedure for transactions with associated parties with the law in force and its correct application.
In particular, as provided for by the relevant rules, the Chairman and/or the other Statutory Auditors participated in the meetings of the Risk Management and Control Committee to discuss operations with related parties; the Board of Statutory Auditors periodically received information relating to the progress of their positions.

The Board of Statutory Auditors judged that the Board of Directors, in the Management Report and in the Explanatory Notes, had provided adequate information on the transactions with related parties, taking into account the provisions of the regulations in force. To the knowledge of the Board of Statutory Auditors, there were no intra-group operations or operations with the related parties implemented in 2017 that were contrary to the interests of the company.

In the year 2017, the Bank did not perform any atypical or unusual transactions. With regard to the operations of particular importance and of an ordinary nature, these respect the principles of

prudence, do not contravene the resolutions of the Shareholders' Meetings and do not prejudice the company's assets.
During the year, the Board of Statutory Auditors brought to the attention of the Management Body possible improvements both for the Procedure for monitoring transactions with related parties and that for the Most Important Operations in the context of the application experiences that had occurred.

Regarding the outsourcing of activities of the Bank, and in particular of the Important Operational Functions, the Board of Statutory Auditors:

- acknowledged the report prepared by the Internal Audit Department and expressed its opinion at the Board meeting of 27 April 2017, as required by the Supervisory Authority;
- recommended to the Management Body, an increase in the rate of reporting with regards to monitoring systems and practices regarding outsourced activities.

The Board of Statutory Auditors, in acknowledging the accession of Banca IFIS S.p.A. to the Self-Governance Code for listed companies, verified the requirements of independence of its members, in addition to the correct application of the criteria and procedures of verification adopted by the Board of Directors to assess the independence of the Directors.

3.2 – Supervisory activities on the adequacy of the internal control system, of the risk management systems and of the organisational structure

The Board of Statutory Auditors monitored the suitability of internal monitoring systems and risk management through:

- meetings with the management of the Bank;
- regular meetings with the Audit Functions - Internal Audit, Compliance, Anti money laundering (AML) and Risk Management and the Financial Reporting Officer - in order to evaluate the methodology for the planning of operations, based on the identification and evaluation of the principal risks present in the organisational processes and units;
- examination of the periodical reports from the Audit Functions and the periodical information regarding the results of monitoring activities;
- acquired information from the managers of corporate functions;
- discussion of the results of the work carried out by the external auditing firm;
- participation in the work of the Risk Management and Control Committee and, when the topics so required, in their joint examination with the Committee.

In the execution of its monitoring duties, the Board of Statutory Auditors maintained continuous relations with the Audit Function.

Having considered the development of the Bank, not only quantitatively, the Board of Statutory Auditors focused on preparation of organisational safeguards to improve monitoring of the main risks.
The Board of Statutory Auditors placed emphasis on the evolution of organisational structure, geared to strengthening the management structure and to the continued strengthening of risk monitoring.

In this context, the Board of Statutory Auditors acknowledged that audit systems were adapted to the updated composition of the group, via the definition of processes and management policies and the coordination of audit processes.

The Board of Statutory Auditors also recommended strengthening of the procedures for the monitoring and control of potential risks regarding liquidity (such as mismatching and funding gaps), potentially resulting from the evolution of supply profiles and the evolution of commitments.

In recognising the changes introduced on an organisational structure level, the Board of Statutory Auditors called the attention of Top Management to the verification of adequacy of dedicated human resources, with particular reference to auditing roles, also in light of the widening of the banking group.

Furthermore, the NPL Area was subject to organisational and company evolution, aimed at a more efficient and effective management of purchased portfolios.
In acknowledging the changes, the Board of Statutory Auditors underlined the need for constant improvement of (i) the reporting of the Company bodies regarding the acquisition, progress and monitoring of the activities of the NPL Area, and (ii) internal monitoring systems, with particular reference to the new asset classes subject to acquisition such as NPL Corporate Secured.
Also following discussions with the external auditing firm, the Board of Statutory Auditors furthermore recommended the assumption of all necessary and opportune initiatives - such as the completion of the setting-up of the Validation Function - in order to guarantee the integrity and the correctness of the application of models of evaluation, together with the results of the same, for the portfolios of non-performing loans.

Finally, with regard to the development of activities related to the strengthening of credit risk monitoring, including the design and implementation of the IRB system for management purposes, the Board stressed the necessary rapidity for the full implementation of the IRB system, not only for statistical and reporting purposes of all areas of the Bank Group.

Over the course of 2017, the Board of Statutory Auditors also monitored continuation of the Risk Appetite Framework and supervised the suitability and effects of the entire ICAAP and ILAAP processes on the requirements set out by the regulations.

From the examination of the Audit Function reports, the continuous and constant strengthening of the internal control system is evident. In particular, attention is drawn to the increase in resources assigned to this system.

Intervention plans were provided with reference to the activities and to the problems identified, whose timely implementation is judged by the Board of Statutory Auditors as essential and requiring particular attention by the Management Body.

On the basis of the activities carried out, the Board of Statutory Auditors – also in relation to the continuous growth of the Bank and the group – believes that there are certain areas for possible further improvement, highlighting at the same time that there are no elements that are sufficiently critical as to invalidate the internal control system and risk management.

3.3 – Supervisory activities on the administrative-accounting system and on the financial report and non-financial disclosure processes

The Board of Statutory Auditors, in its role as Committee for internal control and auditing, also in consideration of the modifications made to our regulations by legislative decree n° 135/2016, monitored the process and the efficiency of internal monitoring systems and risk management with regards to the financial report.

The Board of Statutory Auditors periodically met the manager responsible for the exchange of information regarding the administrative-accounting system and in addition discussed the reliability of the latter in order to have an accurate representation of management-related issues.
During these meetings, the Financial Reporting Officer made no indication of any significant shortcomings in the operational and auditing processes that could invalidate the adequacy and effective application of administrative accounting procedures.
The Board of Statutory Auditors examined the Report of the Financial Reporting Officer for the 2017, consolidated financial statements which contains the results of tests on the controls carried out as well as the main problems identified in the framework of the application of relevant legislation and the methods used, and which identifies the appropriate solutions.

During the year, the Bank, with the constant support of the Board of Statutory Auditors, improved the audit systems to ensure consistency and alignment of the data between the various characteristic sources of the individual pieces of information.

It is deemed appropriate to underline the evolution of the ICT information system, which has seen the adopting of a new core banking system. The Board of Statutory Auditors has continuously recommended that particular attention be paid to auditing procedures concerning the aligning of data between the various typical individual sources of information, the procedures for the financial report and the databases used by second level Audit Functions.

The Board of Statutory Auditors also examined declarations, issued on 06 March 2018 by the CEO and by the manager responsible, in accordance with the provisions contained in article 154 *bis* of the Consolidated Law on Finance and in article 81 *ter* of the Consob Regulations 11971/1999, from which no failings emerged that might affect the judgement of adequacy of the administrative-accounting procedures.

The Board of Statutory Auditors then acknowledged the monitoring systems developed by the Financial Reporting Officer regarding the relative subsidiaries in the group of consolidated companies that do not demonstrate profiles of significant criticality.

The external auditing firm EY S.p.A., at periodic meetings, and in light of the Additional Report pursuant to article 19 of EU regulation n° 537/2014 issued on 15 March 2018, did not report any critical situations to the Board of Statutory Auditors that could affect the internal control system relating to the administrative and accounting procedures, nor did it ever highlight facts that were deemed reprehensible or any irregularities that would require reporting pursuant to art. 155, paragraph 2, of the Consolidated Law on Finance.

The Board of Directors prepared, in accordance with the law, the consolidated financial statements as at 31 December 2017 of the Banca IFIS Group that were submitted for audit by the external auditing firm EY S.p.A.. The group of consolidated companies was modified following the aforementioned mergers. The Board of Statutory Auditors acknowledged the preparation of instructions provided to the subsidiaries for the process of consolidation.

With regard to the consolidated financial statements – as required by the rules of conduct recommended by the National Board of Certified Public Accountants in the document of 15 April 2015 – the Board of Statutory Auditors monitored compliance with the procedural rules concerning the formation and setting out of the same and of the management report.

In light of the above, there are no elements which demonstrate that the activity was not carried out respecting the principles of correct administration, nor that the organisational layout, internal auditing systems and the accounting and administrative systems are not, as a whole, suited to the requirements and dimension of the company.

The Bank prepared the Non-Financial Disclosure, made obligatory by Legislative Decree 254/2016 as of financial periods beginning 1 January 2017. The indications set out by the regulations are completed by "Implementing regulation for Legislative Decree of 30 December 2016, n. 254" published on 18 January 2018 by the Italian Securities and Exchange Commission with Resolution n. 20267.
The Bank prepared the Non-Financial Disclosure as an autonomous document on a consolidated basis and this Board of Statutory Auditors, in light of the previsions of article 3, paragraph 7 of Legislative Decree 254/2016, has verified said document, also in light of that expressed by the external auditing firm in its report pursuant to article 3, paragraph 10 of Legislative decree 254/2016 issued on 15 March 2018, with regards to its completeness and its correspondence to that provided for by regulations and according to the criteria of preparation illustrated in the Methodology Notes for the Non-Financial Disclosure, without identifying elements which require mention in this report.

3.4 – Supervisory activities pursuant to Legislative Decree 39/2010

The Board of Statutory Auditors, as the Committee for internal audit and for the general auditing procedure, carried out the task of supervision of the external auditing firm's operations, as provided for by art. 19 of the amended Legislative Decree no. 39/2010.

Following the coming into force of the so-called "Barnier reform" and the consequential new national regulatory framework, introduced by the (EU) regulation n° 537 of 16 April 2014 and by Legislative decree n° 135 of 17 July 2016, which amended Legislative decree n° 29/2010, the Board of Statutory Auditors benefited from sufficient information in this matter.
Furthermore, on the suggestion of the Board of Statutory Auditors, the Bank prepared suitable procedures for the monitoring of the system of payments made to the external auditing firm according to that provided for by the Barnier reform.
During the year, the Board of Statutory Auditors met with the external auditing firm EY S.p.A. several times, as already stated, pursuant to art. 150 of the Consolidated Law on Finance, in order to exchange information concerning the activities carried out in implementation of their respective duties.

The external auditing firm:
- issued, on 08 August 2017, the report on the limited audit of the abbreviated six-monthly consolidated financial statements with no exceptions being highlighted;
- issued, on 15 March 2018 – in accordance with art. 14 of Legislative Decree no. 39/2010 and article 10 of the EU regulation n° 537 of 16 April 2014 – the certification reports from which it is evident that the financial statements and consolidated financial statements, closed at 31 December 2017, are drawn up clearly and represent in a truthful and correct manner the financial and asset situation, the economic results and the cash flows of Banca IFIS S.p.A. and of the Group for the year ended on that date. In the opinion of the external auditing firm, the Management Report on the financial statements and consolidated financial statements as at 31 December 2017 and the information of the Report on corporate governance and shareholder structure are consistent with the annual financial statements and consolidated financial statements as at 31 December 2017.

Again, on 15 March 2018, the external auditing firm presented the Board of Statutory Auditors with the Additional Report, provided for in article 11 of the EU regulation n° 537/2014, which this

Board of Statutory Auditors will bring to the attention of the upcoming meeting of the Board of Directors on 23 March 2018.

The Additional Report does not present any significant shortfalls in the internal auditing system with regards to the financial reporting process which would merit being brought to the attention of those responsible for the activity of governance.
In the Additional Report, the external auditing firm presented the Board of Statutory Auditors with the declaration regarding independence pursuant to article 6 of the EU regulation n° 537/2014, from which no situations emerge that might compromise independence.
Lastly, the Board of Statutory Auditors acknowledged the Transparency Report prepared by the external auditing firm and published on its website pursuant to article 18 of Legislative Decree 39/2010.

Lastly, as previously mentioned, the Board of Statutory Auditors examined the content of the report by EY S.p.A. regarding the Non-financial disclosure issued pursuant to article 3, paragraph 10 of Legislative Decree 254/2016 on 15 March 2018.

The Board of Statutory Auditors reports that over the course of 2017, as well as the function of auditing of the individual financial statement, consolidated financial statement and the financial statements of the subsidiaries, EY S.p.A., with the approval of this Board of Statutory Auditors, was entrusted with the task of certification for the AUP IFIS ABC PROGRAMME for 25.000 euros, and the following tasks for other services:
- Consistency valuation of the price of Interbanca for the merger (2505 bis of the Italian Civil Code) of 15.000 euros;
- EMTN program Prospectus for 50.000 euros;
- EMTN program Prospectus- "bring down letter" for 30.000 euros.

Furthermore, on 1 December 2017, EY S.p.A. made a request for adjustment of its fees as a result of increased activities both carried out and which will be necessary, following the merger through acquisition of Interbanca S.p.A. and IFIS Factoring S.r.l. into Banca IFIS S.p.A., in addition to the original task of external auditing assigned by the Banca IFIS S.p.A. Shareholders' Meeting held on 17 April 2014; with regards to this, it is underlined that EY S.p.A. was also the company charged with the auditing of Interbanca S.p.A. and IFIS Factoring S.r.l..
During the sessions of 7 December 2017 and 5 March 2018, the Board of Statutory Auditors examined the aforementioned request and presents this meeting, via a separate document, its favourable opinion with regards to the same.
The external auditing firm also confirmed to the Board of Statutory Auditors that, during the year and in the absence of the conditions for their release, it did not issue any other opinions pursuant to the law beyond those issued pursuant to article 2505 *bis* with regards to the merging of Interbanca.

3.5 – Relations with the Supervisory Body

As recommended by the standards of conduct of the National Council of Chartered Accountants, in 2017 the Board of Statutory Auditors acquired from the Supervisory Body all the information useful to verify those aspects relating to the autonomy, the independence and the professionalism necessary to efficiently carry out the tasks assigned to it.
The Board of Statutory Auditors thus acquired from the Body the information on the adequacy of the organisational model adopted by the company, on its concrete functioning and on its effective implementation.

The Supervisory Body reported on the activities carried out during the year ended 31 December 2017 without indicating any significant critical profiles, highlighting a situation of substantial alignment with the provisions of the organisation and management model pursuant to Legislative Decree n°. 231/2001.

4. Remuneration policies

The Board of Statutory Auditors took note that during the meeting on 06 March 2018, the Board of Directors approved the document Report on Remuneration, regarding the 2017 financial year.
With reference to remuneration policies, it is deemed opportune to underline that the By-laws foresee for the impossibility for the Meeting itself to: (i) *"set a limit to the ratio between the variable and the fixed component of the individual remuneration greater than 1: 1"*; (ii) award the Chairman a remuneration higher than that *"fixed received by the head of the Management Body"*.

During the session of 15 March 2018, the Board of Statutory Auditors furthermore acknowledged, thus agreeing with the comments within, the verifications carried out by the Internal Audit bodies and presented in the draft of the Report on verifications carried out regarding the procedures for remuneration, policies and regulatory context: verifications which led to a satisfactory outcome.
During the year 2017, the Board of Statutory Auditors took note of the allocation of treasury shares of the Bank to the CEO and to the General Manager in accordance with the policies approved by the Shareholders' Meeting of 22 March 2016 and of the operating procedure approved by the Board of Directors.

In general, in light of the provisions issued by the Supervisory Authorities on the subject of remuneration and incentive systems, the Board of Statutory Auditors monitored, in close connection with the Remuneration Committee, the correct application of the rules governing the remuneration of managers of the Audit Functions and of the Manager Responsible and the communication of remuneration policies for the 2018 financial year to the companies belonging to the Group.

On the basis of the information available, the Board of Statutory Auditors considers that the principles set out in the Remuneration Report are not inconsistent with the corporate objectives, strategies and policies of prudent risk management.

****

The Board of Statutory Auditors is not aware, in addition to that which has already been discussed earlier, of facts or details that need to be communicated to the Shareholders' Meeting.
The Board of Statutory Auditors did not receive, during the year 2017, any complaints from shareholders pursuant to art. 2408 of the Italian Civil Code.

****

In the course of the activity performed and on the basis of the information obtained, no omissions, reprehensible facts, irregularities or in any case other significant circumstances were detected that would require reporting to the Supervisory Authorities or mention in this report.

In conclusion, the Board of Statutory Auditors - taking into account the specific tasks conferred to the external auditing firm regarding auditing of the accounts and of the reliability of the financial statements - issued its opinion without qualifications, and in light of the claims issued pursuant to art. 154 bis of Legislative Decree 58/1998 by the Officer appointed to prepare the accounts and the corporate documents and by the CEO, has no comments to make to the Shareholders' Meeting, pursuant to art. 153 of the Consolidated Law on Finance, concerning the approval of the financial statements for the year to 31 December 2017, accompanied by the Management Report, as presented by the Board of Directors, and therefore has no objections to the approval of the financial statements, to the proposed allocation of the operating profit or to distribution of the dividends.

Venice - Mestre, 16 March 2018

For the Board of Statutory Auditors
The Chairman

Giacomo Bugna

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

Independent auditors’ report on the consolidated financial statements

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

EY S.p.A.
Via Isonzo, 11
37126 Verona

Tel: +39 045 8312511
Fax: +39 045 8312550
ey.com

Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banca IFIS Group ("the Group"), which comprise the statement of financial position as at December 31, 2017, and the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flows statement for the year then ended, and the notes to the financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Banca IFIS Group as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38/2005 and article 43 of Legislative Decree n. 136/2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.
We are independent of Banca IFIS S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 3.100.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

We identified the following key audit matter:

Key Audit Matter	Audit Response
Valuation of NPL Sector Loans The Group operates with an operating segment ("NPL Sector") dedicated to the purchase of receivables without recourse, management and collection of non-guaranteed receivables of difficult collectability, which contributes to the reclassified consolidated banking margin of 31.7%, equivalent to Euro 164, 5 million. This operation is relevant for the audit both because the related economic effects are significant for the financial statements as a whole, and for the methods adopted by the Group for their representation and evaluation, which are characterized by complexity profiles and by use of assumptions and hypotheses inherent in the adoption of specific valuation models. These models, in accordance with IAS 39, provide for the application of the amortized cost method, which is based on estimates of expected cash flows, the result of historical experience accrued and broken down by homogeneous clusters, updated based on the results of credit recovery activities of judicial or extrajudicial nature. Within the accounting policies set out in part A of the notes to the consolidated financial statements, the criteria for recognizing and assessing the loans of the NPL Sector are described, as well as the risks and uncertainties related to the use of the estimates that underlie the valuation process.	In relation to these aspects, our review procedures included, inter alia: • an understanding of the policies, processes and controls implemented by the Group for the acquisition, recognition and periodic assessment of NPL Sector loans, based on the evolution of the recovery estimate, and the performance of compliance procedures on the checks considered key among those detected; • the carrying out on a sample basis of substantive procedures aimed at verifying the correctness of the valuation assumptions both as regards the expected cash flows, and with regard to the estimated timing for their recovery, taking into account of the underlying guarantees, if any; • the carrying out of procedures for the comparative analysis of the NPL Sector loan portfolio by comparison with the data referring to previous years and analysis and discussion with management the differences, considered as most significant; • the analysis of the adequacy of the information provided in the notes to the financial statements.

Responsibilities of Directors and Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38/2005 and article 43 of Legislative Decree n. 136/2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing Banca IFIS Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Statutory Auditors ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banca IFIS Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Banca IFIS Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Banca IFIS Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or the business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Banca IFIS S.p.A., in the general meeting held on April 17, 2014, engaged us to perform the audits of the separate and consolidated financial statements of each years ending December 31, 2014 to December 31, 2022.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of Banca IFIS S.p.A. in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the Board of Statutory Auditors ("Collegio Sindacale") in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Banca IFIS S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Banca IFIS Group as at December 31, 2017, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Banca IFIS Group as at December 31, 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Banca IFIS Group as at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Banca IFIS S.p.A. are responsible **for the preparation** of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by the Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Verona - March 15, 2018

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

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