BFF BANKING GROUP

2016 CONSOLIDATED ANNUAL REPORT

Banking Group Banca Farmafactoring S.p.A.
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REPORT ON OPERATIONS
CONSOLIDATED FINANCIAL STATEMENTS 2016

BFF BANKING GROUP

Contents

Board of Directors

Chairman	Salvatore Messina
Chief Executive Officer	Massimiliano Belingheri
Vice Chairman	Luigi Sbrozzi
Directors	Mark Arnold Michaela Aumann Ben Carlton Langworthy Federico Fornari Luswergh Elisabetta Oliveri Marco Rabuffi Giampaolo Zambeletti Rossi

Board of Statutory Auditors

Chairman	Francesco Tabone
Acting Auditors	Marco Lori Patrizia Paleologo Oriundi (*)
Alternate Auditors	Alessandro Cavallaro Giancarlo De Marchi (**)

(*) Alternate auditor until February 15, 2016; acting auditor from February 16, 2016, confirmed by the Ordinary Shareholders' Meeting of March 31, 2016

(**) Appointed alternate auditor by the Ordinary Shareholders' Meeting of March 31, 2016

Independent Auditors

PricewaterhouseCoopers S.p.A.

Committees

Remuneration Committee

Name	Position	Office
Elisabetta Oliveri	Independent director	Chairperson
Salvatore Messina	Independent director	Committee member
Luigi Sbrozzi	Non-executive director	Committee member

Related Party Transactions Committee

Name	Position	Office
Salvatore Messina	Independent director	Chairperson
Elisabetta Oliveri	Independent director	Committee member
Giampaolo Zambeletti Rossi	Non-executive director	Committee member

Appointment Committee

Name	Position	Office
Federico Fornari Luswergh	Independent director	Chairperson
Michaela Aumann	Independent director	Committee member
Ben Carlton Langworthy	Non-executive director	Committee member

Risk Committee

Name	Position	Office
Michaela Aumann	Independent director	Chairperson
Salvatore Messina	Independent director	Committee member
Luigi Sbrozzi	Non-executive director	Committee member

BFF BANKING GROUP

01 REPORT ON OPERATIONS

The International Economic Scenario

During 2016, the global economy grew gradually, especially beginning in the second half of the year, exceeding expectations in advanced economies. In 2017, global growth could be slowed by the rise of uncertainties in the emerging economies, associated with the normalization of U.S. monetary policy.
Global GDP grew 3.1% in 2016 and forecasts for 2017 suggest a more modest acceleration than in 2016.

In the United States, economic activity grew, especially in the third quarter, recording 3.5% growth year-over-year, due largely to the contribution of net exports. In Japan, on the other hand, GDP growth slowed to 1.3%, owing to the ongoing weakness in consumption and investments. The United Kingdom reported a certain degree of stability in terms of economic growth, equal to 2.4%.

Growth continued in the main emerging economies, although with different trends among the various countries. In China, growth was driven primarily by the boost from domestic components of demand in the fourth quarter, due especially to fiscal and monetary stimulus decided by the government.
The intensification of the recession in Brazil was contrasted by the positive evolution of the economic situation in India, which is growing fast, recording an increase in GDP of 7.3% and the attenuation of the downturn of GDP in Russia.

Inflation rose slightly in the advanced economies, partly resulting from the fall in prices. In December, inflation in the United States climbed to 2.1%, amid forecasts of a certain strengthening of the economy, owing to the presidential elections and the victory of Donald Trump. The trend in prices was equal to 0.5% in Japan and 1.6% in the United Kingdom.

The Federal Reserve continued to pursue a monetary policy normalization process, raising the interest rate on federal funds by 25 basis points. The Federal Reserve gave the main reason for raising the interest rate as being the significant rise in employment in the U.S..
In the other economies, monetary policies remained strongly expansive. In China, for example, throughout 2016, the Central Bank continued to introduce liquidity into the system by means of open market operations.

Global trade grew in the third quarter, but at a slower pace than that predicted by the OECD, reporting an increase of 1.9%, compared to the same period of 2015.
In January, oil prices rose to about $54 a barrel, the highest level recorded since July 2015. This followed an agreement to cut production signed by the OPEC countries and others, including Russia.

In the Eurozone, growth continued at a moderate pace but remains fragile, with an increase in GDP of 1.7%. However, gradual consolidation is expected in 2017, resulting from a strengthening of the domestic components of demand.
The greater inclination towards consumption, especially on the part of households and the Public Administration, more than compensated for the weakening of investments. A steady rise in inflation is reported, as a result of an increase in the prices of certain basic goods.

During the year, the European Central Bank (ECB) continued to reinforce monetary stimulus: the securities markets program is proving to be effective in terms of sustaining economic activity. At the meeting held on December 8, 2016, the Governing Council of the ECB extended the duration of the securities markets program of the Eurosystem until at least December 2017 and, in any case, until the trend of inflation returns to a path that is in keeping with the objective of price stability.

In the fourth quarter, as interest rates in U.S. dollars rose, there was a generalized increase in the sovereign risk premiums in the Eurozone. More obvious increases in the differences in the yield between ten-year government bonds and their German equivalents were noted in Italy, Portugal, France, Spain, Ireland and Belgium. On the other hand, in the case of Greece, the ten-year spread decreased.
Expectations arising from the new U.S. administration and the decisions of the Federal Reserve resulted in a marked appreciation of the U.S. dollar and a generalized weakening of the currencies of emerging countries. As a result of these trends, compared to the end of September, the euro fell against the U.S. dollar and rose against the yen.

The Italian economy in 2016 and forecasts for 2017. Information on the economy of the countries in which the BFF Group operates.

In Italy, the recovery is proceeding gradually, driven by an increase in investments and the expansion of household expenditures. Based on the information currently available, in 2016, GDP increased by 1%.
Despite the fact that the trend of prices is still very low, the inflation rate rose in December by 0.5%.

Industrial activity continues its expansive trend, especially in the manufacturing segment and the retail trade, and business confidence indicators are high.
Corporate profitability improved, partly as a result of a reduction in financial requirements. This derives from the improvement in the capacity to self-finance which, in the last quarter of the year, is reflected in a reduction of bank loans to businesses.
Although there was still some uncertainty attributable to economic and political factors, there was an increase in the number of companies which expect an expansion in the demand for their products in the short term, especially those heading for foreign markets.
The unemployment rate remained stable at 11.6%.

Following the gradual improvement in the economic situation, for banks, the flow of new non-performing loans as a percentage of outstanding loans decreased by 2.6%.
For groups classified as significant, during the same period, non-performing loans as a percentage of total loans remained fairly stable and the coverage ratio increased to 47.3%. Profitability of the largest banking groups fell compared to 2015, as a result of the reduction in the annualized return on capital and reserves, decreasing from 3.8% to 1.4%.
Operating costs rose by 6.1% as a result of non-recurring expenses associated with early retirement incentive plans for employees and contributions to the deposit guarantee schemes and resolution funds. Impairment losses on loans grew by 20.6% as a result of the significant increase in the coverage rate of non-performing exposures on the part of some intermediaries. Efforts to strengthen the equity of the sector continue. At the end of September, the best quality capital, "Common Equity Tier 1", was equal to 11.9%, an increase of approximately ten basis points compared to the percentage at the end of June.
At the end of December, the Government authorized the funding of any interventions, in the form of the provision of guarantees on the liability of new issues or measures to strengthen capital, to support Italian banks and banking groups, up to a maximum of €20 billion for 2017.

The first estimates on 2016 suggest that the net debt of the Public Administration decreased compared to 2015, from 2.6% to 2.3% of GDP, a figure close to the Government estimate, whereas the debt to GDP ratio seems to have increased slightly, by about half a point.

With regard to the future, the extremely favorable orientation of monetary policy, the continuation of a steady strengthening of the dynamics of loans and fiscal benefits implemented by the Government until mid-2018 continue to constitute the basis for saying that economic activity in Italy is becoming stronger. Such economic activity would be driven by domestic demand and by the gradual increase of foreign demand.
Prospective economic indicators are in keeping with the continuation of this moderate kind of expansion. In fact, GDP is expected to increase by an average of 1% a year over the three-year period 2017-2019.

In Spain, the government crisis which had endured since the elections held in December 2015 was resolved. A government has been formed, headed by the leader of the Popular Party, Rajoy, who won a vote of confidence in the Spanish Parliament on October 29, 2016, thanks to the abstention of most of the Socialist deputies belonging to the PSOE, the Spanish Socialist Workers' Party.
In 2016, the country reported an improvement in some of the most important macroeconomic indicators. In the third quarter of 2016, the GDP grew by 3.2%, a figure close to the estimates given by the Government and the IMF for the whole year.
On the other hand, the deficit in 2016 was equal to 4.9% of GDP, 2.1% higher than the target established by the European Union (2.8%).
During the same period, unemployment reached 18.9%, compared to 20.9% at year-end 2015. Despite this improvement, after Greece, Spain has the second-highest unemployment rate in Europe.

With regard to Portugal, uncertainty associated with the political situation continued throughout the year. The first estimates about trends in 2016 point to an increase in GDP, until the third quarter of the year, of 1.6%, in line with the forecasts. As far as public finances are concerned, the balance of the Public Administration between January and November 2016 was a negative figure of €4,435.8 million, an improvement of €713 million compared to 2015. From the point of view of expenditures, the figure increased by 1.3%. This was due principally to an increase in salaries and the interest rates of the national debt (+4.3%).
In 2016, the economy and competitiveness of Poland continued to improve, with an increase in GDP estimated at 3%, and GDP growth of 3.6% in 2017. The national debt, one of the lowest in the European Union, remains at about 52.5% of GDP. The deficit is equal to 2.8% of GDP, while the unemployment rate of 7% is only slightly higher than in neighboring Germany. In 2016, consumer prices contracted by 0.6%; in 2017 they are expected to rise by 1.3%. Various factors continue to contribute to this scenario: constant improvement in technological development, only a slight rise in labor costs and an efficient financial and banking system, with interest rates kept at a level that benefits growth. This has also led to an improvement in the credibility of the Polish market. It has also resulted in lower costs for managing the national debt and in higher foreign investments in the country.
As regards Slovakia, in 2016, the GDP is estimated to have risen by 3.4%, driven by the growth in industrial production and foreign trade.
In 2017, growth is expected to slow slightly to 3.1%, due to a contraction in investments and in domestic demand.

In 2016, consumer prices showed a slight decrease of 0.5%. In 2017, they are expected to rise by 1.2%, and seem likely to accelerate further in the years to come. In 2016, employment increased, with the result that unemployment fell to 9.8%, with a further decline to 9% forecast for 2017.
The national debt continues to remain very low, at 53.3% of GDP, and is expected to fall further in 2017, to 52.7%.

Yet again, in 2016, the Czech Republic confirmed the strength of its main economic indicators. In fact, in 2016, the GDP should settle at 2.2%, driven, in particular, by the growth of its manufacturing industry and an increase in household expenditures and private investments. Over the four-year period 2017-2020, IMF estimates suggest a constant average growth in GDP of 2.3%. The national debt stands at approximately 40%, a much lower level than the European average.
The healthy state of the economy is also confirmed by the latest figures on employment. In fact, the Czech Republic has the lowest unemployment rate in the whole of the EU at just 4.1%, compared to an average of 10.2% in the Eurozone. Estimates suggest that unemployment will fall even further in 2017, to 4.0%.

The National Debt Structure, Expenditures for Goods and Services and Healthcare in Italy. Comments on the countries in which the BFF Group operates.

According to the 2016 Document of Economy and Finance (DEF), total public expenditures in Italy for goods and services in 2015 were €133 billion, of which €31 billion was spent by the National Healthcare System and €102.1 billion by other agencies of the Italian Public Administration.
2016 forecasts of public finance set out in the 2016 DEF document estimate public expenditures for goods and services at €131.7 billion, of which €31.5 billion for the National Healthcare System and €100.2 billion for other Italian agencies of the Public Administration.
The 2017 Budget Law (Law No. 232 of December 11, 2016), published in the "Official Gazette" of December 21, 2016, estimates capital expenditures for 2016 at €40.9 billion, and a slight increase for 2017 (€41.09 billion).

The national debt of Italy at November 30, 2016 reached €2,229,412 million, or €12 billion higher than at November 30, 2015.
Central government debt rose €5.7 billion while that of local government fell €0.1 billion. The debt of the social security entities for 2016 has remained basically unchanged.
Funding for the National Healthcare System for 2015 was €109.7 billion whereas, for 2016, the 2016 Stability Law set the amount at €111 billion.
The 2017 Budget Law established National Healthcare System funding for 2017 at €113 billion, which increases to €114 billion in 2018 and to €115 billion in 2019, with a nominal increase below estimated inflation.

According to the estimates updating the 2016 DEF, healthcare expenditures for 2015 were €112.4 billion while, for 2016, they should be approximately €113.7 billion. The estimate for 2017 is approximately €115.4 billion.

The healthcare deficit for 2015 was €2.7 billion whereas, for 2016, it should be around €2.6 billion. Funding of healthcare expenditures thus remains stable, despite the effect on gross domestic product which is among the lowest of the Western European nations.

Beginning January 1, 2015, as established by the 2015 Stability Law, a split payment mechanism was introduced (Article 17-ter of D.P.R 633/1972) on the basis of which the public entities, and no longer the suppliers, would pay VAT to the tax office on certain sales of goods and on services rendered to those entities. In this way, the payment of invoices would be split between the tax office, with regard to VAT, and the supplier, for the taxable amount, thus resulting in a split payment. Since this area is regulated by Community law, the European Commission examined the Italian law and, in June, authorized the application of the split payment mechanism until December 31, 2017 when adequate controls will have been developed, based on the data acquired through electronic invoicing. E-invoicing has been obligatory from the date of March 31, 2015 for transactions carried out throughout all the Public Administration. The Italian government recently asked for an extension of the split payment mechanism until 2020.

In the two years 2013-2014, funding at various times was set aside to tackle the problem of the debt of the Public Administration. More specifically:

a. Legislative Decree No. 35/2013 made approximately €40 billion available for the years 2013 and 2014;

b. Legislative Decree No. 102/2013 set aside another €7.2 billion for 2013;

c. The 2014 Stability Law allotted €0.5 billion;

d. Legislative Decree No. 66/2014 made available an additional amount of €9.3 billion.

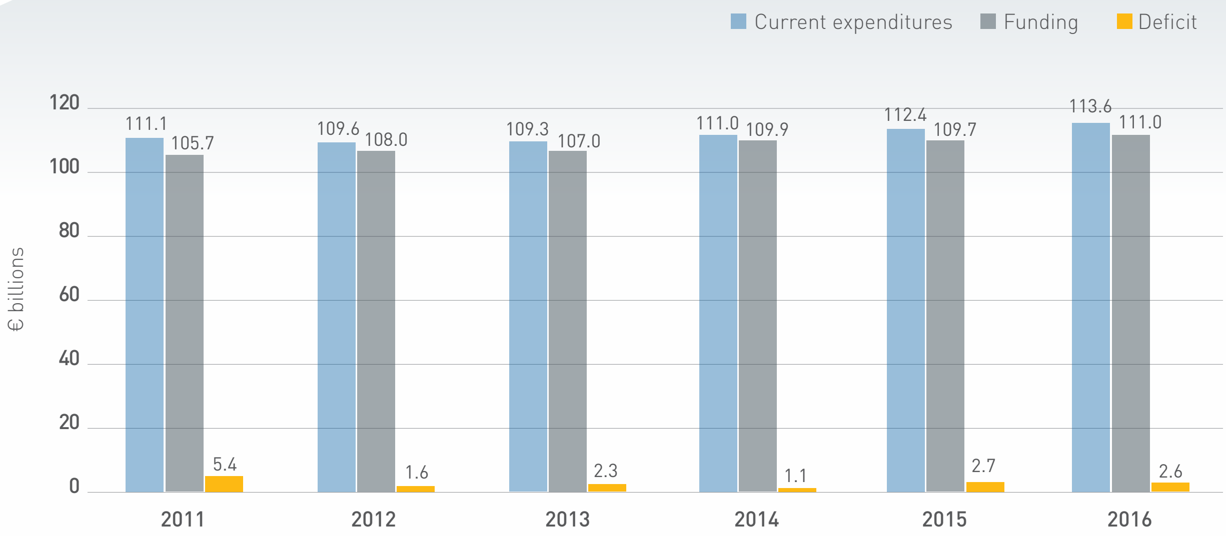
Specifically in regard to the Regions, the "2017 Budget Law" states that the Regions that obtained advances to pay for past due amounts at December 31, 2013, that are in excess of the payments actually made, can use the surplus resources to make payments against existing amounts due at December 31, 2014. To that end, the administrations are required to provide formal certification of payments of the payable by February 28, 2017. The resources received as an advance which are not accounted for by March 31, 2017 must be returned to the State by June 30, 2017.

Under the repayment plans, the Regions are obliged to activate fiscal levers to the maximum levels permitted by law in order to raise additional resources to cover their deficits arising from healthcare management.

Currently, the following Regions implementing this procedure are Piedmont, Apulia and Sicily, in addition to Lazio, Abruzzo, Molise, Campania and Calabria, Regions for which a Commissioner *ad acta* is also required for the continuation of the repayment plan.

On July 15, 2016 the Official Gazette published the June 21, 2016 Ministerial Decree adopted by the Ministry of Health together with the Ministry of the Economy and Finance regarding "repayment plans for hospitals, university hospitals, public scientific institutes for hospitalization and healthcare or other public entities". It decrees that hospitals that have a financial deficit of more than 10% between revenues and costs must adopt a repayment plan, including Local Healthcare Entities (ASL). The "2017 Budget Law" proposes 7% of revenues or €7 million (instead of the current 10% and €10 million) as the deficit between costs and revenues as the assumption for the adoption and the implementation of a repayment plan for hospitals or university hospitals and other public entities offering hospitalization and healthcare services.

National Healthcare Fund (MEF data)

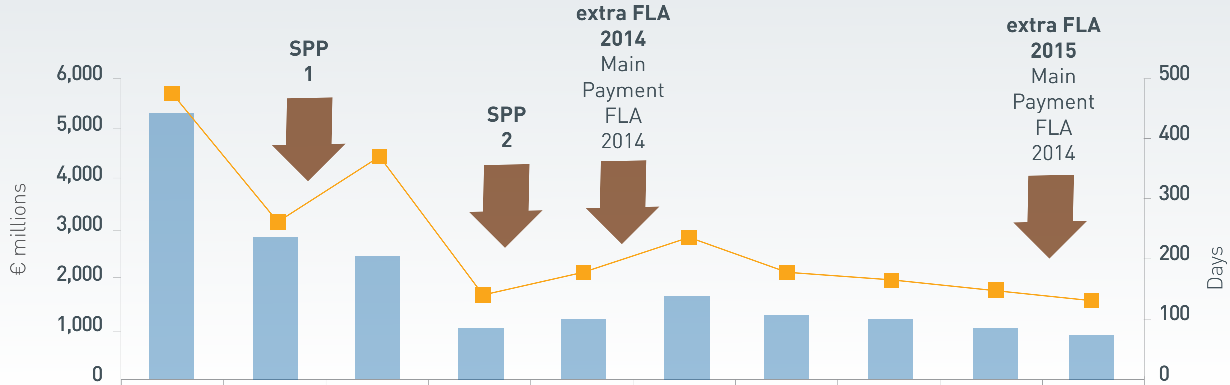


With reference to the situation in Spain, 2016 ended with a cumulative national debt of €1,107 billion, equal to 100.3% of GDP compared to €1,062 billion in 2015.

With regard to the Spanish healthcare system, the most recent figures supplied by the Ministry of the Economy and Finance place healthcare debt at November 2016 at €5,272 million, compared to €8,788 million in the prior year, following the injection of liquidity into the public system, in December (FLA - *"Fondo de Liquidez Autonómico"*).
As for expenditures for the supply of drug products, in 2016, there was a 3.6% increase over the prior year, compared to an increase of 1.9% reported in 2015.
In recent years, the Spanish government passed certain programs and regulations to improve the situation surrounding payment delays in the healthcare sector, reducing the public debt and Days' Sales Outstanding.
From 2012 to 2016, in fact, the government financed the Regions for a total of €163 billion (€34 billion in 2012, €27 billion in 2013, €31 billion in 2014, €38 billion in 2015 and €31 billion in 2016). These special liquidity instruments, such as FLA and FFF (*Fondo de Facilidad Financiera*), finance the Regions at zero interest, which also results in significant savings in terms of borrowing costs.

Days' Sales Outstanding and the debt trend with suppliers of the National Healthcare System (excluding drugs suppliers) are represented as follows:

DSO / Debt Evolution



	DSO 2011	DSO 2012 SPP	DSO 2013	DSO 2014 (Q1) SPP	2014 (Q4)	2015 (Q1)	2015 (Q2)	2015 (Q3)	2015 (Q4)	2016 (Q3)
Debt (M€)	5,230	2,806	2,400	1,060	1,467	1,640	1,340	1,300	1,085	925
DSO	473	273	390	147	197	229	178	170	148	126

Source: Fenin

Days' sales outstanding (DSO) in the third quarter show a reduction (126 days) thanks to the liquidity program mentioned before. More specifically, in December, the government paid €4.6 billion as part of the 2016 FLA, consequently reducing the debt and terms of payment of the public sector in general.

In Portugal, overall expenditures for goods and services of the public administration were €11.8 billion and those relating to the healthcare sector were €5.1 billion, with an increase of 2.8% over the prior year.
As regards the Portuguese healthcare sector, in 2016 the Budget General Directorate (*Direção-Geral do Orçamento* – DGO), the entity which controls the implementation of the Portuguese budget, reported a simultaneous increase in costs and revenues of 2.1% and 1.3%, respectively, compared to the prior year. The Portuguese healthcare deficit is €189.1 million, with an increase of €68.9 million over 2015.

With regard to Poland, in 2016 total, expenditures for goods and services recorded by the central and local public administration, grew 7.3% compared to the prior year.
The Polish Healthcare System is funded by the State through the National Healthcare Fund (*Narodowy Fundusz Zdrowia* - NFZ). Healthcare expenditures amounted to PLN 73.7 billion, corresponding to €17 billion, while costs and revenues increased over the prior year by 4.8% and 4%, respectively. The healthcare system deficit reached PLN 1.5 billion in 2016, compared to PLN 0.9 billion in 2015.

Goods and services expenditures of the public administration in Slovakia total €26.2 billion, with a deficit of €925 million, a significant improvement compared to €4.5 billion in 2015.
Healthcare expenditures in 2016 account for 7% of GDP, an increase of 3.8% from the prior year. The healthcare deficit grew during the year and amounted to about €0.5 million.

In the Czech Republic the accounts of the public administration in 2016 recorded a surplus for the first time since 1995 of CZK 62 billion, or €2.3 billion (at the average exchange rate for the year), indicating a considerable improvement in the sector of public finance.
The total deficit of the healthcare sector is approximately CZK 14 billion (€0.5 billion) and this sector, too, recorded a surplus of CZK 0.6 billion.

Developments in the BFF Group

The consolidated financial statements at December 31, 2016 include the financial statements of Banca Farmafactoring S.p.A. (BFF), Farmafactoring España S.A. (FFE – a wholly-owned subsidiary of Banca Farmafactoring S.p.A.), the special purpose vehicle Farmafactoring SPV I S.r.l. and the companies of the Magellan Group acquired during the year.
In keeping with its planned guidelines, Banca Farmafactoring and Farmafactoring España pursue the policy undertaken in past years, developing commercial policies directed towards strengthening relations with the clientele, expanding operations not only for the management of receivables deriving from the supply of drugs or diagnostic products, but also receivables from the supply of other merchandise sectors, as well as those arising from services in relation to the Public Administration in general. More specifically, in Italy and also in Spain and Portugal, in the latter country under the freedom to provide services provision, in 2016 BFF continued to develop its business model, concentrating its operations on the management and sale of receivables from the National Healthcare System and the Public Administration.
On May 31, 2016, BFF acquired control of the Magellan Group, a company listed on the Warsaw Stock Exchange, through the Polish vehicle company Mediona, as subsequently described in detail in the Notes in Part G.
Magellan's income statement is consolidated from that date and its balance sheet is consolidated line-by-line as at the date of December 31, 2016.

The Magellan shareholders' meeting met on September 30, 2016 and approved the delisting of the shares issued by Magellan and, consequently, on December 1, 2016, the Warsaw Stock Exchange ordered the delisting of Magellan shares from the main Warsaw Stock Market, effective beginning December 6, 2016.
On December 16, 2016, the merger of Mediona with and into Magellan was registered with the Lodz registry office, after BFF acquired 67,471 treasury shares that were held by Magellan, for PLN 23 million, equal to €5.2 million, which thus increased the value of the investment by the same amount.

Magellan S.A. is an independent specialized operator and leader in the market for financial services offered to companies operating in the healthcare sector in Poland and Slovakia.
In the European Union, Magellan also has a presence in the Czech Republic. Magellan began its expansion into Western Europe during 2015, opening a branch in Spain that was merged into Farmafactoring España after its acquisition.
Magellan's business mainly operates in three sectors through the following activities:
• financing the working capital of suppliers of the public administration;
• financing current and future receivables;
• financing investments in the public sector and healthcare.

The East European markets within which the Group operates are characterized by historically high growth rates and favorable future prospects, in addition to a limited penetration of the alternative financing market (AFM).

In Poland, Magellan is the leader in the AFM market in the hospital area, which recorded significant growth over the last three years (18% average growth rate), owing to a deterioration in the financial conditions of the hospitals.

As a result of the Magellan acquisition, the Group operates in a position of leadership on the Polish market of alternative financing in the hospital area, where other specialized operators also operate, and, in a limited manner, some national banks.
The acquisition of Magellan offers the Group the possibility of growing significantly through exposure on markets experiencing growth and the creation of a functional platform from which to increasingly expand in Eastern Europe.
The acquisition will also make it possible to acquire specific know-how for a potential expansion of the product portfolio and the range of services offered by the Group.

The Group, as thus formed, reports a normalized profit of €87.6 million in 2016, including the profit of the Magellan Group for 12 months, and excluding non-recurring expenses of €11.5 million, compared to €72.3 million (before non-recurring expenses of €3.5 million) in 2015, which did not comprise the Magellan Group.

The 2016 statutory net profit of the Group is €72.1 million, up by about 5% compared to 2015, but after having recorded non-recurring expenses of approximately €11.5 million, in connection with the Magellan acquisition, other non-recurring transactions and the extraordinary contribution to the National Resolution Fund, and including also Magellan's profit for only the seven months that it was held by the Group.

(In € millions)

	2016	2015
Profit	**72.1**	**68.8**
Magellan acquisition costs	7.6	
Other non-recurring transactions	2.4	2.8
National Resolution Fund - extraordinary contribution	1.5	0.7
Normalized profit (with Magellan 7 months)	**83.6**	**72.3**
Magellan profit (5 months)	4.0	
Normalized profit including Magellan (12 months) from January 1, 2016	**87.6**	**72.3**

Non-recurring expenses incurred by the Banking Group in 2016 for the acquisition, settlement and integration of Magellan amount to a total of €7.6 million, whereas other non-recurring expenses were incurred for €2.4 million.
In addition, it should be noted that the extraordinary contribution to the National Resolution Fund in 2015 was approximately €1.1 million (€0.7 million net of the tax effect), whereas in 2016 it was €2.2 million (€1.5 million net of the tax effect).

In line with the provisions of EU Regulation No. 575/2013, Capital Requirements Regulation (CRR), starting with CRR reporting at December 31, 2015, in the scope of consolidation used exclusively for prudential supervision purposes, reported in the Notes in Part F, BFF Lux Holdings S.à r.l. was the parent company.
As part of the process to simplify the Banking Group's chain of control, BFF Lux Holdings S.à r.l. was put into liquidation on June 20, 2016. Therefore, beginning with prudential supervision CRR reporting at June 30, 2016, the CRR Group includes the Banking Group and BFF Luxembourg S.à r.l., as the parent company exclusively for prudential supervision purposes.
For purposes of drawing up the other parts of the consolidated financial statements and the submission of "non-harmonized" reporting, the reference will continue to be the Banking Group pursuant to the Consolidated Law on Banking.

The equity of the Group (which therefore also includes Magellan) at December 31, 2016 is €333.7 million, an increase compared to €331.3 million at December 31, 2015.

The following table shows that the Group's Own Funds, as identified according to the CRR, also including Magellan (acquisition financed exclusively, from the standpoint of regulatory capital, with own funds), amount to €235 million at December 31, 2016, excluding the profit for the year, and the overall exposure to risk, relative to the activities carried out, is more than adequate in relation to the level of capitalization and the identified risk profile.
With regard to this Group, in fact, the regulatory capital ratios CET1 Capital Ratio, the Tier I Capital Ratio and the Total Capital Ratio are, respectively 16.4%, 16.5% and 16.6%, without taking into account the appropriation of profit for the year.

(In € millions)

	12/31/2016	12/31/2015
Own Funds	235	258
CET1 Capital Ratio	16.4%	23.9%
Tier 1 Capital Ratio	16.5%	24.0%
Total Capital Ratio	16.6%	24.1%

The reduction in Own Funds and capital ratios, as also described in the Notes in Part F, is due to the acquisition of the Magellan Group. This had an impact of €22.1 million on Own Funds after the recognition of goodwill, and €27 million for higher capital requirements, relative to the Magellan Group's business.

The capital ratios of the Banking Group pursuant to the Consolidated Law on Banking, including Magellan and indicated in Part F, are 16.7% for the CET1 Capital Ratio and also the Tier 1 Capital Ratio and the Total Capital Ratio.
In the event that the entire profit for the year is appropriated to increase Own Funds, the CRR Group ratios CET1 Capital Ratio, the Tier 1 Capital Ratio and the Total Capital Ratio, would be equal, respectively, to 21.3%, 21.4% and 21.5%.

Considering that the Total Capital Ratio is 16.4%, consistently with the dividend policy approved by the BFF Board of Directors, which calls for a target Total Capital Ratio of 15% for the CRR Group, a motion was made to distribute the entire consolidated profit for the year of €72.1 million.
It should be emphasized that the majority shareholder BFF Luxembourg has formalized its commitment to advocate a dividend distribution policy such as to maintain, over time, a Total Capital Ratio of not less than 15% both at the level of the BFF Group and within the CRR Group framework.

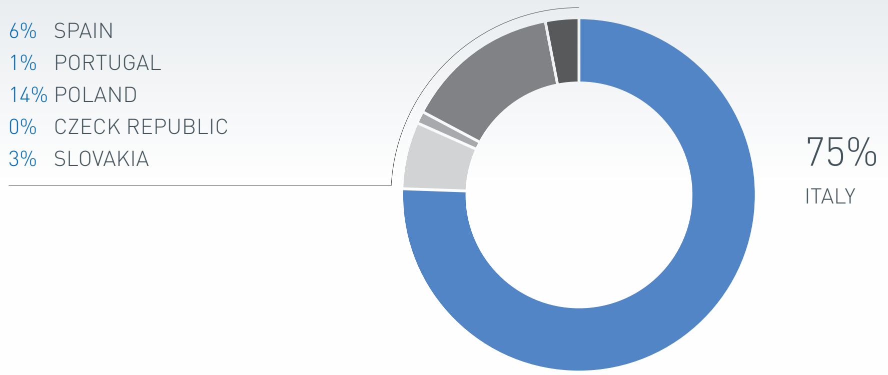
The following is a summary of receivables from the Group's customers, including Magellan, at the date of December 31, 2016 only, divided by the product type.

(in € millions)

	12/31/2016 with Magellan	12/31/2015 without Magellan
Factoring	2,107.0	1,926.0
Finance leases	6.9	
Loans to customers	317.2	
Other receivables	68.0	36.0
Total item 70 – Receivables from customers	**2,499.1**	**1,962.0**

The following chart shows the geographic breakdown of receivables from customers as reported in item 70 of the balance sheet, which totals €2,499,094 thousand.

Geographic breakdown of receivables



The BFF Group, during the course of the year, has continued to work for the expansion, diversification and optimization of the deposit-taking structure so that it becomes increasingly flexible and in step with the changing aspects of its business, thanks in part to its solid capitalization and the stability of its available resources.

More specifically, in 2016:
• new bonds, maturing in 2021, were issued for a total of €150 million;
• deposit-taking was begun in Germany, under the freedom to provide services provision, by the Spanish branch of Banca Farmafactoring and is reserved exclusively for retail customers (as described later in the report);
• steps were taken to restructure and renegotiate Magellan's funding structure and conditions; and
• the securitization transaction with Deutsche Bank was renewed for €85 million, an amount that is lower than in the previous year,
thus reducing BFF's funding costs and planning the exploitation of cost and funding synergies for the entire Group, thanks partly to the better conditions that Magellan may be able to obtain as part of the BFF Group.

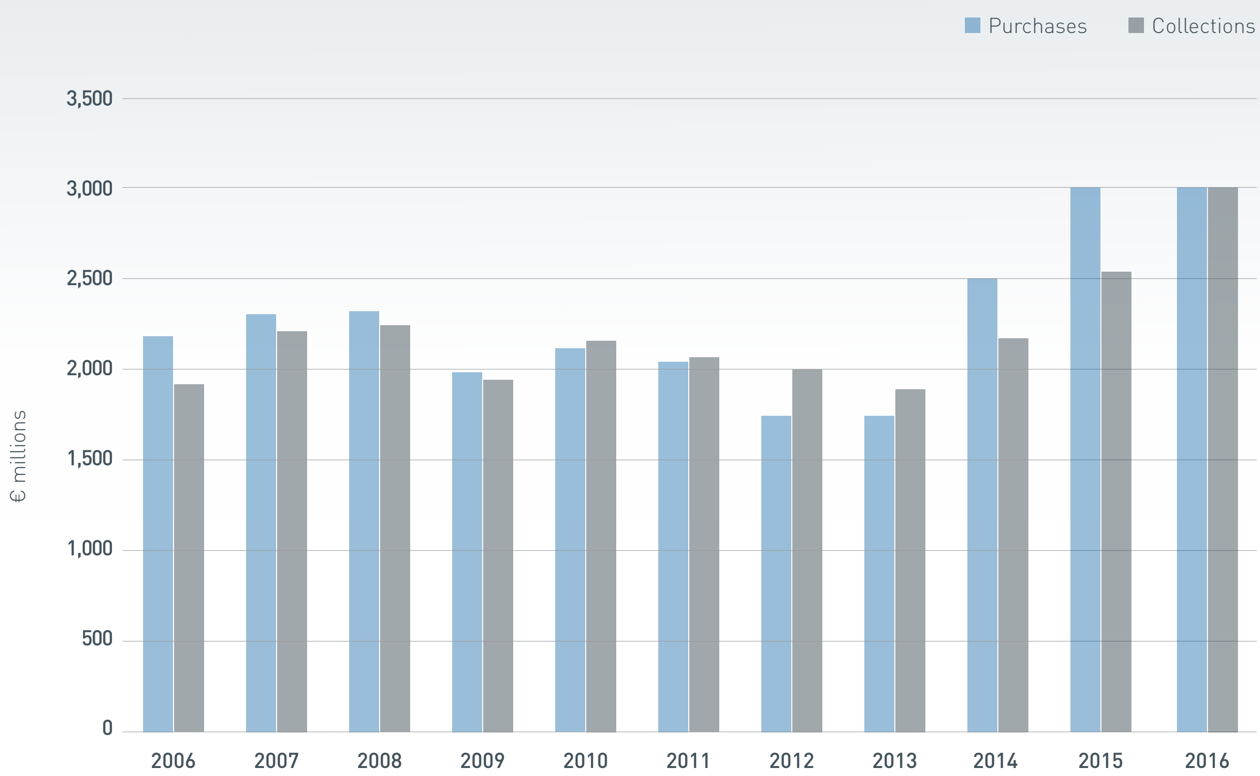
Performance by the BFF Group

Banca Farmafactoring and Farmafactoring España

The pro forma consolidated profit in 2016 of Banca Farmafactoring and Farmafactoring España, that is, the Group considering the 2015 scope of consolidation, amounts to €69.6 million, of which €7.3 million refers to the Spanish subsidiary.

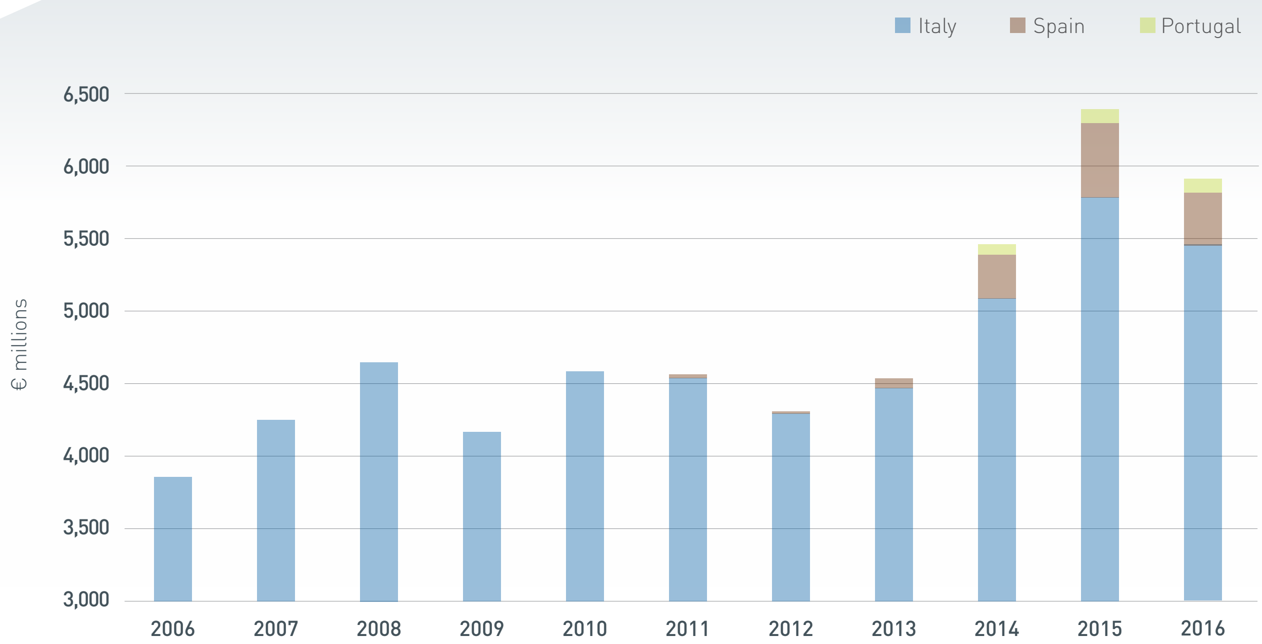
Total purchases of non-recourse receivables by the two companies were approximately €3,003 million, an increase of more than €18 million compared to 2015.
In Italy, the total was €2,606 million, up €125 million over 2015.
In Spain, non-recourse purchases amounted to €346 million as compared to €450 million in the prior year. Following the liquidity injected by the Government, the propensity to sell receivables remained low for the entire year.
Purchases made in Spain by the Magellan Group in the first half of 2016 come to approximately €12 million. These receivables, besides those already in portfolio, were managed by Farmafactoring España, starting in July.
Purchases made in Portugal stand at €51 million, or approximately €3 million lower than last year, partly as a result of the injection of liquidity by the Portuguese government at the end of the year.
The following chart highlights the positive trend of purchases of non-recourse receivables and the relative collections.

Non-recourse Receivables - Purchases and Collections



The charts that follow indicate total volumes, which include not only non-recourse purchases but also turnover in connection with receivables management activities, referring to BFF and Farmafactoring España, divided by country. Data up to 2010 inclusive refers to Farmafactoring, in that Farmafactoring España started its first non-recourse purchases in 2011, whereas the first purchases by Portugal began in 2014.
Overall volumes by the two companies in 2016 total €5,879 million.

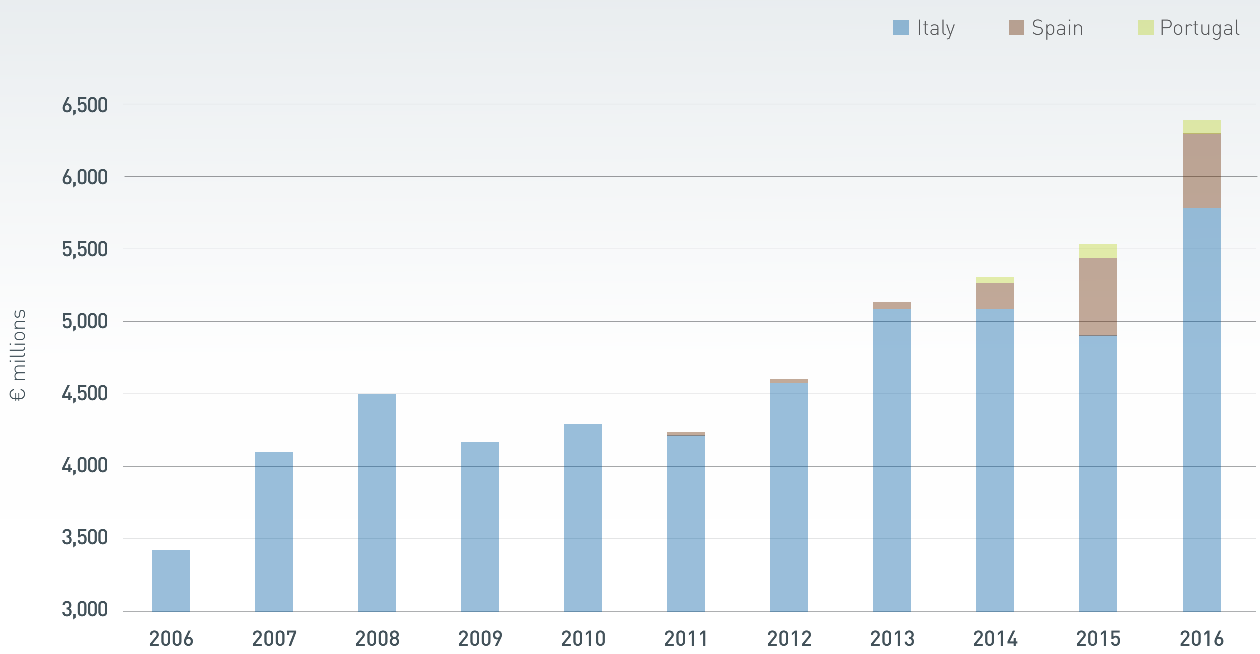
Total Volumes



Total collections amount to €6,285 million, of which €2,995 million refers to non-recourse purchases, €764 million higher than in 2015.
Collections for Italy total €5,836 million compared to €4,930 million in the prior year.
As for Spain, collections are €408 million, a decrease compared to €537 million in 2015. Portugal records collections of €40 million against €54 million in the prior year.

The following chart presents total collections by BFF and Farmafactoring España, divided by country.

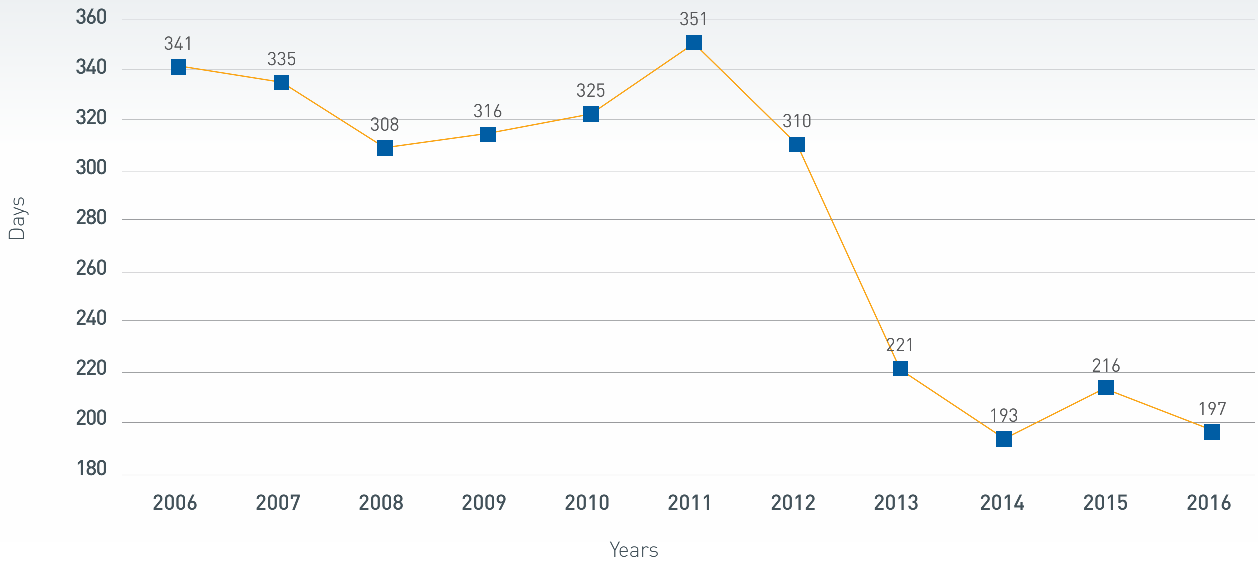
Total Collections



In 2016, the average days' sales outstanding for receivables managed by BFF on its behalf and on behalf of third parties, for Italy, were 197 days, compared to 216 days in 2015.

The improvement over last year can principally be ascribed to important payment agreements reached by BFF with its main debtors, especially the National Healthcare System, and the increase, compared to the prior year, in volumes purchases from healthcare debtors, which have better payment times than the receivables purchased and due from the rest of the Public Administration.

Average Days' sales Outstanding (DSO)



Source: Banca Farmafactoring S.p.A. internal data

Collections of late-payment interest total approximately €91.8 million, including €86 million collected in Italy, €5.5 million in Spain and €0.3 million in Portugal.

Late-payment interest accrued on non-recourse purchases of receivables in Italy, Spain and Portugal at December 31, 2016 is €547 million, of which €48 million is due from Spanish debtors and €11 million on receivables from debtors in Portugal. Of this interest, a total of €186 million has been recorded in the income statement in 2015 and in prior years.
Late-payment interest not yet collected at December 31, 2015 amounted to €460 million, of which €151 million was recorded in the current year and in prior years.
The profit implicit in the current receivables portfolio, referring to late-payment interest and fees and commissions and that will be recorded in the income statement amount to €92 million.

Magellan
The profit of Magellan, from the month of June 2016, included in the income statement of the Group, is approximately PLN 12.4 million, or about €2.9 million at the average exchange rate for the period of 4.3645, net of non-recurring expenses connected with the acquisition of Magellan by BFF of €2.7 million. If these expenses are not considered, the profit of Magellan would be a €5.7 million for the seven months and €9.6 million for the entire year.

Volumes realized by Magellan during the year amount to PLN 1,830 million (approximately €426 million at the average exchange rate for the year), an increase over PLN 1,685 million in 2015 (equal to €398 million). Receivables due from customers at December 31, 2016 amount to €447 million compared to €387 million at December 31, 2015.

Magellan recognizes late-interest on past due receivables when there is a reasonable certainty that the interest will be collected, on the basis of agreements reached with the counterparty debtors or when decided by a court of law.

Notwithstanding the minor significance of late-payment interest to the total of Magellan receivables, as part of the activities to complete the integration of the Group's processes, which also includes synchronizing the time series of data and the analysis instruments with those used by BFF, the Group adopted the estimation criteria decided locally by management when Magellan was listed. These confirm an almost integral recovery of the late-payment interest recognized in the income statement, net of discounts and/or rounding offs of a maximum of 3% granted to the debtors.

It should be noted that, as a result of the merger of the vehicle Mediona in Magellan, finalized on December 16, 2016, there may be a tax benefit for Magellan (tax asset). The recognition of the tax asset in the financial statements is subject to the approval of the Polish tax authorities following the outcome of an administrative process that has already been started, which, first of all, calls for a ruling by the Polish tax authorities on the technical question, obtained on July 19, 2016, and a successive and more detailed ruling on the security question, which the company has yet to receive.

During the year, BFF began the activities necessary to integrate Magellan into the Group. To this end an action plan was developed outlining the initiatives deemed necessary for the completion of the integration. The Bank of Italy, in the procedure followed for the approval of the acquisition of Magellan, offered some recommendations, the execution of which is included in the action plan.
The integration project, begun in June 2016, comprises various areas managed by a central project management team consisting of two integration managers, one from BFF and one from Magellan. Certain integration activities will extend into 2017 and it is therefore believed that the integration will be concluded only during the course of next year.

Funding activities

The Governing Council of the ECB has confirmed its support within the framework of the monetary policy and charged the staff of the Eurosystem to assess the various technical options to ensure that the implementation of the securities purchase program does not meet any obstacles.
As for banking credit, surveys indicate that financing conditions are starting to improve. The cost of loans to companies is now at historically low levels and the total of non-performing loans began to decrease even from the end of last year.

The expansionist measures adopted by the ECB have provided support to economic activities and an upturn in credit. The ECB is determined to use every instrument available including the possibility of varying the dimension, composition and duration of the program for public and private securities purchases whenever that becomes necessary to counter the risks of a downturn and ensure that inflation returns to levels consistent with the definition of price stability.

In this context, BFF has managed to operate effectively, thanks in part to an adequate capitalization and the stability of its financial resources.

At the Group level, financial resources to support ordinary activities, net of the loan secured for the acquisition of the Magellan Group, total €3,152 million at December 31, 2016, thanks to the contribution from wholesale funding obtained by the parent company of €2,115 million, deposit-taking through the deposit accounts in Italy, Spain and Germany of €817 million and wholesale funding obtained by Magellan for an equivalent €219 million.
Therefore, considering that the funding of the Group at December 31, 2015 amounted to €2,182 million, the financial resources supporting ordinary activities recorded a total increase of €970 million.

Trend in Wholesale Funding and Direct Deposit-Taking

The following activities were concluded during the year with the aim of diversifying and optimizing the deposit-taking structure and in relation to the dynamics of the development of BFF's business:

• structuring of revolving stand-by financing for a total at the end of the year of €767.5 million, with an increase of €177.5 million from the prior year;

• renewal of the securitization transaction with Deutsche Bank for a lower amount compared to the prior year, equal to €85 million, described later in the report.

• new issue of 5-year senior unsecured notes in June for €150 million, described in detail later in the report.

• with regard to Magellan, the following activities took place with the aim of rendering the financial structure efficient and taking advantage of funding synergies deriving from the acquisition:

- repayment of bonds in euro and Polish zloty for a total of €47 million;

- repayment of bank-type wholesale funding for a further total of €72 million by refinancing thanks to the structuring of new less expensive wholesale funding solutions for a total of €62 million and, partially through intragroup financing with an intercompany loan that, at December 31, 2016, totaled €160 million.

At the end of 2016, the face value of the securities portfolio totaled €1,971.5 million, of which:
- €375 million was classified in the available-for-sale (AFS) portfolio, with a fair value of €385 million;
- €1,596.5 million was classified in the held-to-maturity (HTM) portfolio, with a fair value of €1,633 million.

The securities in the AFS portfolio are at variable rates (CCT), with residual maturities within five years, while those in the HTM portfolio are at fixed rates (BOT, BTP and CTZ), with maturities correlated to the sources of committed and unsecured funding held by BFF in accordance with company policy.
With regard to government securities it should be noted that during the year refinancing operations were put in place with the Eurosystem through participation in Open Market Operations with the ECB (currently full allotment at least until December 31, 2017), and with repos mainly with Cassa Compensazione e Garanzia through the MTS platform.
At December 31, 2016 the government securities portfolio was refinanced for €1,770.5 million with reverse repos, while there were no loans secured from the ECB.
The face value of securities available at December 31, 2016 is €200.5 million (of which €20 million in intraday credit with the Central Bank).

Loan for the acquisition of the Magellan Group
In addition to wholesale funding, on May 27, 2016, a loan contract was signed with Unicredit Group for the acquisition of the company Magellan S.A. for a total amount of PLN 355.1 million, approximately 80% of the value of the public tender offer.
This transaction guarantees the natural hedging of the position, the remaining 20% of which was financed with own funds.
The loan is structured as a term loan with one lump sum bullet repayment due May 31, 2019.
Considering the variable nature of the interest rate and specific designation of the loan, an interest rate swap (IRS) contract was entered into to hedge the indexed Wibor 3-month rate with the amount and term equal to the loan itself, also to satisfy the requisites of hedge accounting set out in IAS 39 and IFRS 13.

BFF bond issue
On June 21, 2016, BFF successfully completed the placement of senior unsecured bonds, which join the previous bonds of €300 million issued in 2014 with a maturity date of June 12, 2017, having similar characteristics.
The bonds (ISIN code XS1435298275) were issued through a private placement reserved for institutional investors for a total face value of €150 million. The 5-year bonds, which have a maturity date of June 21, 2021, are unsecured and unrated.
The bonds are bearer bonds with a face value per bond of €100 thousand and multiples of €1,000, with a fixed coupon of 1.25% per year, with annual deferred interest payment. On the issue date, the bonds were listed for trading on the Irish Stock Exchange.
BFF does not hold any financial instrument regarding this transaction.

Securitization renewal transaction
In August 2016, the existing securitization contract with the Deutsche Bank Group was renewed for €85 million and is aimed at diversifying funding activities.
The receivables, owed by Local Healthcare Agencies and Hospitals, were sold without recourse

to a special purpose vehicle company pursuant to ex Law No. 130/99, Farmafactoring SPV I S.r.l., which financed the purchase of the receivables by issuing securities for €85 million, underwritten by Deutsche Bank AG.
The renewed structure, after an amortization period that ended on the note payment date of August 25, 2016 (which made it possible to reduce the amount of securities issued from the original €150 million to the current €85 million), provides for a new revolving period valid until July 31, 2017, during which sales of revolving receivables will be made against collections of receivables to maintain the contractually stipulated collateralization ratio.
At the end of the revolving period there will be a two and a half years amortization period correlated to the performance of existing receivables collection during which the securities will be repaid.

Delisting of Magellan
On September 30, 2016, the Magellan shareholders' meeting approved the delisting of Magellan shares and, consequently, on December 1, 2016 the Warsaw Stock Exchange issued an order to delist Magellan's shares from the main market of the Warsaw Stock Exchange effective beginning December 6, 2016.
It should be noted that on October 27, 2016 the waiver process proposed for the mBank bonds issued by Magellan was successfully completed and that, at the same time, specific waivers were obtained from the holders of the two bonds issued directly by BFF, as well as from the counterparties of some loan agreements entered into by BFF, aimed at preventing that the cross-default clauses in the bonds and in these loan agreements could be triggered in the event of a significant event of default for the Group, which could have been the delisting of Magellan.
Following the positive outcome of the waiver process, the delisting of Magellan's shares does not constitute either an event of default for any of Magellan's bonds or for any other loan of the Group.

Change in Banca Farmafactoring's Share Capital

The authorization for the amendments to the by-laws, contained in the BFF "Report on proposed amendments to the by-laws", was issued by the Bank of Italy on April 6, 2016, pursuant to Article 56 of the Consolidated Law on Banking. As a result, on May 18, 2016 the Extraordinary Shareholders' Meeting of BFF approved:

(i) a bonus increase in share capital, pursuant to Article 2349 of the Italian Civil Code, up to a maximum of €134,750, corresponding to a maximum number of 1,750 special shares, through the conversion of retained earnings, as shown in the most recently approved financial statements, in a one-time award to be made by June 30, 2016; and
(ii) the amendments to the by-laws necessary for implementing the Stock Grant Plan.

The bonus increase in share capital from €130,900,000 to €130,982,698 was registered in the Milan Company Register on June 22, 2016 and 1,074 bonus special shares (were issued as of the date of May 31, 2016.
This increase has not resulted in changes to the Own Funds of BFF and the CRR Group.
The share capital of BFF, at December 31, 2016, thus consists of 1,701,074 shares. The following table illustrates the shareholders of the BFF following the changes described above:

Shareholders	Number of shares	% of share capital
BFF Luxembourg S.à r.l.	1,602,341	94.196%
Bracco S.p.A.	55,689	3.274%
Mediolanum Farmaceutici S.p.A.	20,517	1.206%
L. Molteni & C. dei Fratelli Alitti Società Immobiliare S.r.l.	14,450	0.849%
Unione Fiduciaria S.p.A. Società Fiduciaria e di servizi delle Banche Popolari Italiane	7,003	0.412%
Employees with Special Shares (without voting rights)	1,074	0.063%
Total	**1,701,074**	**100%**

The share capital increase is described in detail in the Notes in Part I – Share-based payments.

Deposit Account

In September 2014, BFF launched an online deposit account in Italy called Conto Facto aimed at retail and corporate clientele and guaranteed by the Fondo Interbancario di Tutela dei Depositi of which the BFF is a member. Conto Facto can be held by individuals and companies resident in Italy. Account holders deposit their funds for a fixed term, choosing the exact date between 3 and 36 months on which to withdraw their cash.
In August 2015 the Spanish branch of BFF launched a similar online deposit account, Cuenta Facto, also aimed at retail and corporate clientele and guaranteed by the Fondo Interbancario di Tutela dei Depositi, of which the BFF is a member. Cuenta Facto can be held by individuals and companies resident in Spain. As with Conto Facto, account holders deposit their funds for a fixed term, choosing the exact date between 3 and 60 months on which to withdraw their cash.

In June 2016, deposit-taking was begun in Germany, under the freedom to provide services provision, by the Spanish branch of BFF, aimed exclusively at retail clientele, using the Weltsparen online platform. In this case, there are three fixed terms of 12 months, 24 months and 36 months.
At December 31, 2016, the deposits in Conto Facto and Cuenta Facto, including the deposits taken through the German platform, total €817 million, compared to €418 million at December 31, 2015.

Internal Control

Pursuant to the provisions dictated by the Supervisory Authority, the organizational framework of the internal control system of the Group is based upon the following three control levels.

First-level controls
The first-level controls aim to ensure that transactions are correctly performed and carried out

by the same operating structures that execute the transactions, with the support of computer procedures.

Second-level controls
The second-level controls (risk management and compliance controls) aimed at ensuring the correct implementation of the risk management process, the compliance of company operations with procedures and the control over the risk of money laundering and terrorism financing, are entrusted to the Risk Management Function and the Compliance and Anti-Money Laundering (AML) Function, which, consistently with the current prudential supervisory discipline, have the following main responsibilities:

• **Risk Management:** ensures the interconnectivity of the risk measurement and control system with the processes and methodologies of company's activities, coordinating with the interested company structures. It oversees the realization of the process for determining capital adequacy, monitors the controls over the management of risk in order to define the methodologies used to measure risk, assists the company bodies in designing the Risk Appetite Framework (RAF), verifies that the limits assigned to the various operating functions are being observed and checks that the operations of the individual areas are consistent with the assigned risk and return objectives;

• **Compliance**: supervises, according to a risk-based approach, the management of the risk of non-compliance with regulations, with regard to all the activities falling within the regulatory perimeter for BFF and the Group, continuously verifying whether internal processes and procedures are adequate in preventing such risk and identifying the relevant risks to which BFF and the subsidiaries are exposed; it measures, assesses and monitors the relevant risks; guarantees an overall and integrated vision of the risks to which BFF and the subsidiaries are exposed, ensuring adequate disclosure to the corporate bodies of BFF and the subsidiaries;

• **Anti-Money Laundering (AML)**: has the task of preventing and avoiding the occurrence of money laundering and terrorism transactions, continuously also identifying the applicable rules in this area and verifying the coherence of the processes with the objective of ensuring that BFF and the Group conform to the law on matters of anti-money laundering and anti-terrorism. It is also responsible for the controls required by the anti-money laundering law, so as to prevent the use of the financial system for purposes of laundering the profit from criminal activities, and the financing of terrorism.

During 2016, the Risk Management Function and the Compliance and AML Function were separated and a new person with the necessary professional characteristics was appointed head of the latter function. Moreover, a "local" Compliance and AML Function was set up at Magellan S.A., which reports directly to the Management Board of this company and, functionally, to the Compliance and AML Function of BFF.

Third-level controls
Internal audit activities are conducted by the Group's Internal Audit Function, in a staff position to the Board of Directors. The Internal Audit Function carries out independent controls, not only at the parent but also at the subsidiary Farmafactoring España under a specific servicing agreement which governs the provision of the audit service, and in an institutional environment, as a function of the parent for the subsidiary Magellan S.A. The regulation approved by the Board of Directors

specifies that the Internal Audit Function, within the third-level controls, should evaluate the overall functioning of the system of internal control and bring to the attention of the corporate boards possible improvements, with particular reference to the Risk Appetite Framework, to the process for the management of risks as well as the tools for their measurement and control.
The person in charge of the Internal Audit Function has the necessary autonomy and is independent of the operating structure, in compliance with Bank of Italy's regulation on the subject of internal controls, and, with regard to internal regulations, is the function with the organizational means to monitor company processes. The Internal Audit Function carried out, for the year 2016, the testing activities established in the three-year 2016-2018 audit plan of the Group, carrying out follow-up activities and reporting on the results of its testing on a quarterly basis to governance and control bodies of BFF.
Specifically, the Internal Audit Function lent support to BFF in restructuring the audit process for the subsidiary Magellan S.A. based upon a rationale referring to subsidiaries of a supervised banking group. It also carried out intragroup testing on the processes considered of greater relevance from a regulatory standpoint.
Furthermore, the planned controls carried out for 2016, focusing on a risk-based framework, on BFF's structures, on the subsidiary Farmafactoring España and on the Spanish branch in Madrid, were brought to a conclusion.
The process for audit planning and management was certified under the quality standard UNI ISO 9001:2008.
The person in charge of the Internal Audit Function, as the head of the internal whistleblowing process, in conformity with the banking regulatory requirements of reference, prepared the 2016 statement which indicates that it received no reports.

Supervisory Body pursuant to Legislative Decree 231/2001
The Organizational, Management and Control Model was designed by the Bank pursuant to Legislative Decree 231/2001. The model consists of a General Part and Specific Parts, with a Supervisory Body that periodically monitors the model's adequacy through planned testing activities.
The activities performed by the Supervisory Body in 2016 were principally directed to the assessment of the adequacy of the 231 Organizational Model also within a Group rationale, the control over information flows, anti-money laundering and workplace safety issues, careful examination of reporting by the Internal Audit Function and by all other control functions and independent verification. The Supervisory Body is also kept constantly informed, within the scope of its competence, on the projects of strategic relevance for BFF.
It should also be noted that in the second half, Farmafactoring España S.A. began a project aimed at the adoption, pursuant to Article 31-bis of the Spanish Criminal Code, of an organizational, management and control Model similar to the Italian Model, with the consequent identification of a Supervisory Board with functions similar to that of the Italian Supervisory Board.

For a description of the corporate governance system, please refer to the Report on the system of internal control and risk management (main characteristics of the financial reporting process, also consolidated, in accordance with ex article 123- bis, paragraph 2, letter B of the Consolidated Law on Finance), on the corporate website, under governance.

Systems Development

In 2016, investments were made in the Information & Communication Technologies sector. These investments were directed to applications software and basic software and hardware to ensure the availability, continuity, performance and security of the systems (see Bank of Italy Circular No. 285, and subsequent updates, regarding systems and operating continuity, Legislative Decree No. 196 of June 30, 2003, as amended, and the international standards ISO/IEC 27001:2013 - ISO/IEC 27002:2007).
More specifically, the following main projects were implemented:
• update of the entire infrastructure and the activation of new physical and logical server systems, with relative storage, new systems for communication and safety at the production and disaster recovery sites, with particular reference to the migration of the systems of the subsidiary Magellan to BFF's Italian data centers.
• expansion of the private data transmission network between BFF's main branches using MPLS technology for the extension to the new foreign subsidiary locations;
• completion of new software systems for:
  - management of electronic credit line files (PEF),
  - management of commercial activity (CRM),
  - management of BFF's intranet,
• new software functionalities for the management of Public Administration debtors and the selection of potential receivables portfolios to purchase;
• analysis of the information systems used by BFF, the Spanish subsidiary and the subsidiary Farmafactoring España, to verify whether their organization and configuration with regard to the hardware infrastructure, installation and applied architecture and the ICT governance is suitable for supporting current operations, and especially the growth targets set forth in the business plan.

Deposit Guarantee Scheme

The 2014/49/EU Directive (Deposit Guarantee Schemes Directive - DGSD) introduced, in 2015, on the subject of deposit guarantee schemes, a new mixed financing mechanism, based on ordinary contributions (ex-ante) and special contributions (ex-post), anchored to the institutions' covered deposits and the degree of risk of the individual member bank.

More specifically, Article 10 of the directive, introduced by Article 24, paragraph 1 of the statutes of the Fondo Interbancario Tutela dei Depositi (FITD), establishes the start of a mandatory contribution mechanism which provides that available financial resources should be set aside up to the target level of 0.8% of total covered deposits by July 3, 2024, through ordinary annual contributions of the member banks (Mandatory Scheme).

The board of the Fondo Interbancario Tutela Depositi (FITD) has established that the overall contribution to the Mandatory Scheme for 2016 should be €449,207,884, to be divided among the member banks in relation only to the amount of covered deposits. The contribution quotas were calculated using the contribution base at September 30, 2016 and were due from all the member banks of the FITD at such date.

The amount of the ordinary contribution from BFF for 2016 is approximately €545 thousand and was paid in December 2016. This amount was recognized in item 180 b) "other administrative expenses", as indicated in the Bank of Italy communication of January 19, 2016 "Contributions to Resolution Funds: treatment in financial statements and in supervisory reporting".

As concerns extraordinary contributions, Article 23 of the new FITD statutes provides that "whenever the available financial resources are insufficient to reimburse depositors, the member banks shall pay extraordinary contributions not to exceed 0.5% of the covered deposits per calendar year. In exceptional cases, and with the consent of the Bank of Italy, the FITD may ask for higher contributions".

On November 26, 2015, the shareholders' meeting of FITD members also approved a Voluntary Scheme in addition to the Mandatory Scheme, to implement interventions to support member banks in conditions of, or at the risk of, becoming insolvent and BFF is participating in the scheme. The Voluntary Scheme has at its disposition autonomous financial resources, currently established at a total of €700 million, which the member banks commit to provide, when requested, in the case of interventions.
In May 2016, Cassa di Risparmio di Cesena asked for the intervention of the Voluntary Scheme to increase its share capital so that it could resolve the Bank's difficulties.
The Voluntary Scheme's Management Board, on June 15, 2016, approved the intervention to support this bank by subscribing to a reserved capital increase of €280 million.
BFF's share was paid in September 2016 and amounted to €235 thousand. The relative fair value at December 31, 2016, communicated by FITD on January 20, 2017, was €177 thousand. In keeping with the instructions of the Bank of Italy in "Voluntary Scheme established by FITD. Questions" of October 26, 2016, the amount was recorded in item 40 of the balance sheet, "Available-for-sale financial assets", under equity securities.

BFF has also communicated that it wants to withdraw from this Voluntary Scheme at the earliest possible time.

Resolution Fund

Regulation 806/2014, which regulates the Single Resolution Mechanism Regulation, that came into effect on January 1, 2016, has established the European Single Resolution Fund – SRF, managed by the new European resolution Authority, the Single Resolution Board. Starting from that date, the funds of the National Resolution Fund (NRF), set up by directive 2014/59/EU (Banking Recovery and Resolution Directive - BRRD), received in 2015, became part of the new European Resolution Fund.

The Regulation establishes a financial mechanism so that over a period of eight years, that is, by December 31, 2023, the member states will provide SRF with financial resources equal to at least 1% of the amount of covered deposits of all the authorized entities within the respective territory.
In order to achieve this objective, therefore, the contributions must be collected, at least annually, from the authorized entities within the respective territory.
The ordinary annual contribution required of BFF in 2016 was approximately €1,086 thousand, paid in June 2016.

Law No. 208 of December 28, 2015 (2016 Stability Law) provides that, in the event the FNR funds are not sufficient over time to cover the interventions of support that are carried out, additional contributions may be requested, to the extent determined by the Bank of Italy, with the overall limit set forth in Articles 70 and 71 of the aforementioned Regulation and, for 2016 alone, two additional annual quotas.
The Bank of Italy, considering the need to immediately resort to the resources of the Fund as part of the framework of the resolution program for the crises of Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio della Provincia di Chieti and Cassa di Risparmio di Ferrara, began, by its communication of December 28, 2016, the procedure to collect the extraordinary contribution equal to the two ordinary annual quotas established for 2016. For BFF, this amounts to €2,179 thousand.
For 2015, the extraordinary contribution requested, for the same purpose, was €1,101 thousand.

The total impact of the ordinary and extraordinary contributions was recorded in item 180 b) "other administrative expenses", as indicated by the communication of the Bank of Italy of January 19, 2016 "Contributions to Resolution Funds: treatment in financial statements and in regulatory reporting".

Change in Staff Headcount

In order to support the development plans of the Group and best meet the criticality of the period, the number of staff of the Group was steadily increased over the years.

During the year, following the acquisition of Magellan and the development of the Group, the number of resources of the Group increased considerably.
At December 31, 2016, the headcount of BFF, also including Magellan, totals 409 resources.

BFF and Farmafactoring España added 53 people in 2016, reaching a total of 225 resources, of whom 32 are in Spain (9 at the BFF branch in Madrid and 23 at FFE). Such increase was directed to strengthening the managerial structure and adding qualified professional staff.
Magellan, at December 31, 2016, has 184 resources, of whom 170 in Poland, 11 in Slovakia and 3 in the Czech Republic.
The following table presents the composition of the Group's staff divided by the countries in which it operates.

Category	2014		2015		2016				
	Italy	Spain	Italy	Spain	Italy	Spain	Poland	Slovakia	Czech Rep.
Senior executives and executives	9	1	11	1	14	1	6	2	
Managers	45	3	51	4	62	14	23		1
Others	85	8	104	17	117	17	141	9	2
	139	**12**	**166**	**22**	**193**	**32**	**170**	**11**	**3**
	151		**188**		**409**				

The change in personnel costs over the last three years is presented in the table below. The increase in headcount reflects the Group's development over that period and refers to the addition of new resources. In 2016 the increase in personnel costs is also due to the Magellan acquisition, which had an effect of €3,185 thousand for the seven months, and the increase in staff incentive payments linked to the results for the year.

(In € thousand)

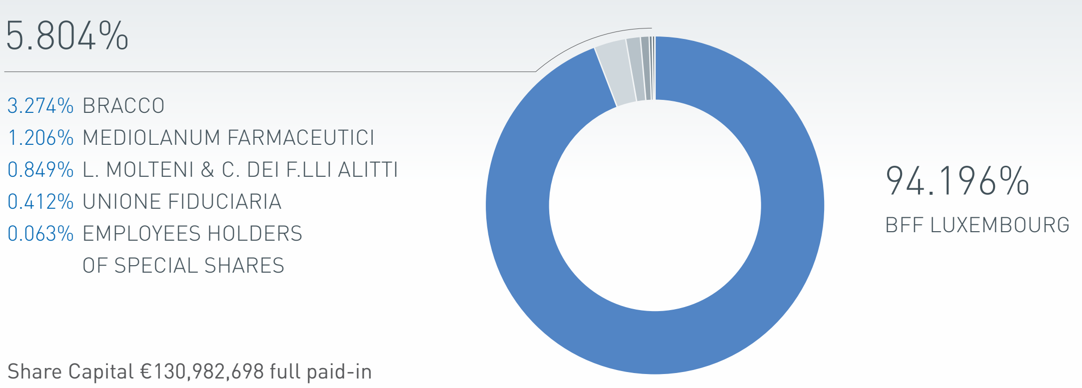
Item	2014	2015	2016
Personnel costs	14,828	18,476	24,924

Transactions with the Parent and Other Related Parties

As part of the process to simplify the chain of control of the Group, BFF Lux Holdings S.à r.l. was put into liquidation on June 20, 2016 and the investment that it held in BFF Luxembourg S.à r.l, the majority shareholder of BFF, was transferred to the company BFF PEI, L.P. indirectly controlled by Centerbridge Capital Partners III (PEI) L.P..

As described earlier and explained in detail in the Notes in Part I, BFF made a one-time award not linked to performance targets of 6 special bonus shares to each of the employees of the Group for a total of 1,074 special shares, issued effective May 31, 2016.
The share capital of BFF therefore consists, at the reference date, of 1,701,074 shares, of which 1,602,341 shares representing 94.196% are held by the majority shareholder BFF Luxembourg S.à r.l..
The following chart gives the BFF shareholders.

Shareholders



Share Capital €130,982,698 full paid-in

As for transactions with related parties and associated parties, the BFF Board of Directors, on November 11, 2016, approved the "Group Regulation for the identification and approval of transactions with associated parties" in implementing the supervisory provisions of the Bank of Italy Circular No. 263 of December 27, 2006, Title V, Chapter 5, after a favorable opinion was expressed by the Board of Statutory Auditors and the Independent Directors.
The purpose of the Regulation is to oversee the risk that proximity, if any, of such parties to the Group's decision-making centers may compromise the objectivity and impartiality of the decisions taken on transactions involving those same parties, with possible distortion in the resource allocation process, exposure of BFF to risks not adequately measured or supervised and the potential damage for the shareholders and stakeholders.

On the same date, BFF adopted "Policies on internal control adopted by the Group for the management of conflicts of interest" (so-called "Policy on the management of conflicts of interest", which disciplines the control processes aimed at ensuring the correct measurement, monitoring and management of the risks assumed by the Group with associated parties.
The Regulation for transactions with associated parties and the Policy on the management of conflicts of interest are communicated to the shareholders' meeting and the public on the BFF website in the section Governance – procedures and regulations – transactions with associated parties.

The Group has factoring and mandate arrangements for the management and collection of receivables with its shareholder companies, which are conducted at standard market terms.
It should also be noted that there are deposit accounts with directors of the Group.

Information on related party transactions is presented in the Notes in Part H – Related party transactions.

Business Outlook

According to the approved planning guidelines, the Group will pursue the activities undertaken in past years, developing commercial policies geared to the strengthening of its relationships with existing clientele, expanding operations for the management of receivables deriving not only from the supply of drugs or diagnostic products, but also from the supply of other merchandise sectors, as well as those arising from services in relation to the Public Administration in general, in European Union countries.

Accounting Principles

General principles of preparation

The Consolidated Financial Statements are prepared, as established by Legislative Decree No. 38/2005, in accordance with the IAS/IFRS international accounting standards.

IAS/IFRS structure of financial statements

The Consolidated Financial Statements were prepared in accordance with the instructions provided by the Bank of Italy with Circular No. 262 of December 22, 2005 "Bank financial statements: presentation format and preparation rules" and subsequent updates.

The Consolidated Financial Statements include the following:

- a report on operations;
- a consolidated balance sheet;
- a consolidated income statement;
- a statement of consolidated comprehensive income;
- a statement of changes in consolidated equity;
- a consolidated statement of cash flows;
- the notes to the Consolidated Financial Statements.

Reclassified Consolidated Balance Sheet

(in € thousands)

Items	12/31/2016	12/31/2015	Change
Assets			
Cash and cash balances	149	160	(11)
Financial assets held for trading	244	0	244
Financial assets designated at fair value	3,401	0	3,401
Available-for-sale financial assets	385,280	429,438	(44,158)
Held-to-maturity financial assets	1,629,320	822,859	806,461
Due from banks	144,871	60,523	84,349
Due from customers	2,499,094	1,962,004	537,090
Hedging derivatives	529	0	529
Investments	302	0	302
Property, plant and equipment	12,988	12,666	323
Intangible assets	25,811	2,747	23,064
Tax assets	25,870	28,053	(2,183)
Other assets	7,136	3,106	4,030
Total Assets	**4,734,996**	**3,321,555**	**1,413,441**
Liabilities and Equity			
Due to banks	634,807	688,081	(53,274)
Due to customers	2,996,142	1,726,683	1,269,459
Debt securities issued	634,283	452,962	181,321
Financial liabilities held for trading	7	0	7
Hedging derivatives	176	0	176
Tax liabilities	73,659	70,583	3,076
Other liabilities	54,320	45,885	8,435
Provision for employee severance indemnities	867	883	(16)
Provisions for risks and charges	6,989	5,195	1,794
Equity	261,610	262,493	(883)
Profit for the year	72,136	68,791	3,346
Total Liabilities and Equity	**4,734,996**	**3,321,555**	**1,413,441**

Reclassified Consolidated Income Statement

(in € thousands)

Item	2016	2015	Change
Interest and similar revenues	190,226	161,946	28,280
Interest and similar expenses	(31,020)	(28,898)	(2,122)
Net interest margin	**159,205**	**133,047**	**26,158**
Net fees and commissions	**3,355**	**7,943**	**(4,588)**
Dividends and similar income	60	0	60
Gains (losses) on trading	682	46	636
Fair value adjustments in hedge accounting	(1)	(23)	22
Gains (losses) on disposal and repurchase of available-for-sale financial assets	706	872	(166)
Operating income	**164,007**	**141,885**	**22,122**
Administrative expenses	(63,641)	(45,567)	(18,074)
Net adjustments to/ writebacks on property, plant and equipment and intangible assets	(2,616)	(2,137)	(479)
Net provisions for risks and charges	(2,075)	(879)	(1,196)
Impairment losses/reversals on financial assets	(2,244)	(1,126)	(1,119)
Other operating income (expenses)	5,704	4,144	1,560
Profit before income taxes from continuing operations	**99,134**	**96,320**	**2,814**
Income taxes	(26,997)	(27,529)	532
Profit for the year	**72,136**	**68,791**	**3,346**

If consideration is not given to the non-recurring costs related to the acquisition of Magellan of €7.6 million, other non-recurring expenses, which amount to €2.4 million, and the extraordinary contributions made to the National Resolution Fund, which amount to of €1.5 million, the profit of the Group would have been €83.6 million. If account is also taken of the profit of Magellan for the first five months of the year, prior to the acquisition by the Group, of €4 million, the profit of the Group would be €87.6 million.

Comments on the Reclassified Consolidated Balance Sheet

The key line items in the reclassified consolidated balance sheet are commented below and described in greater detail in the Notes in Part B.

Available-for-sale financial assets

(in € thousands)

Items	12/31/2016	12/31/2015	Change
Government securities - AFS	385,086	429,415	(44,329)
Investments	17	23	(6)
Equity securities	177	0	177
Total	**385,280**	**429,438**	**(44,158)**

The balance mainly represents government securities purchased by BFF to hedge liquidity risk and to optimize the cost of money, for a total face value of €375 million.
These securities earn interest at variable rates (CCT) and have residual maturity dates up to five years.

The securities are classified in the AFS portfolio and therefore measured at amortized cost. The interest earned is recorded in the income statement according to the effective rate of return.
At the end of the year, the value of the securities is compared to their fair value and the fair value adjustment is recognized in equity under revaluation reserves.
At December 31, 2016 the fair value reserves on available-for-sale securities amount to approximately €471 thousand, net of the tax effect.

Held-to-maturity financial assets

(in € thousands)

Items	12/31/2016	12/31/2015	Change
Government securities	1,629,320	822,859	806,461
Total	**1,629,320**	**822,859**	**806,461**

The balance consists entirely of purchases of government securities, classified in the HTM portfolio, to hedge against liquidity risk and to optimize the cost of money, for a total face amount of €1,596.5 million.
These securities are at a fixed rate (BOT, BTP and CTZ) with maturity dates related to the sources of committed and unsecured funding. Such securities are therefore classified in the HTM portfolio and measured at amortized cost. The interest earned is recorded in the income statement according to the effective rate of return.

The HTM portfolio includes financial assets which the Bank intends to hold until the maturity date set in the contract, for the collection of fixed and determinable amounts. In accordance with IAS 39, an entity may not classify any financial assets as held-to-maturity if, in the current year or in the preceding two financial years, the entity has sold or reclassified in the current year more than an insignificant amount of HTM investments before maturity.
The fair value of these securities at December 31, 2016 is €1,632,899 thousand, with a positive fair value change, compared to the carrying amount at the same date, of €3.6 million, which is not recognized in the financial statements.

Due from banks and customers

(in € thousands)

Items	12/31/2016	12/31/2015	Change
Due from banks	144,871	60,523	84,348
Due from customers	2,499,094	1,962,004	537,090
Total	**2,643,965**	**2,022,527**	**621,438**

"Due from banks" mainly consists of current account balances of the Group companies at the end of the year.
The balance includes €5,174 thousand in the mandatory reserve deposit with ICBPI, as BFF is indirectly a participant in that system, and €1,652 thousand deposited in the *Fondo de Garantía de Depósitos* with Banco de España for the deposit-taking activities through Cuenta Facto conducted by the Spanish branch of BFF.

Details of "Due from customers" are as follows:

Valori in migliaia di euro

Items	12/31/2016	12/31/2015	Change
Assignors – loan account	9,992	2,230	7,762
Non-recourse receivables purchased	2,049,517	1,903,348	146,169
Receivables purchased below face amount	52,362	22,696	29,666
Other receivables	387,224	33,730	353,494
Total	**2,499,094**	**1,962,004**	**537,090**

Non-recourse receivables purchased are measured at amortized cost based on the present value of estimated future cash flows, including both the principal and late-payment interest that accrue from the receivable's due date for the amount considered recoverable, based on the time series analysis on the percentages and recoverability times.

In order to compute amortized cost, including late-payment interest recognized on the accrual basis, BFF updated the time series of data regarding the percentages and collection times of late-payment interest utilized in the prior year, with the collections recorded in 2016. The outcome of this updating process has confirmed, on the basis of the times series analysis, the recoverability rate of 40% for late-payment interest and 1800 days for collection times.

The cumulative amount of late-payment interest to which the Group is entitled but has not yet collected, on non-recourse receivables purchased (Provision for late-payment interest), is €547 million, of which only €186 million has been recognized in income in the current and prior years.
There is an open securitization transaction on healthcare securities structured with Deutsche Bank that was renewed during the year.
The receivables in this transaction were sold to the special purpose vehicle Farmafactoring SPV I S.r.l. and the assets are not derecognized. The value of the receivables sold and not derecognized outstanding at December 31, 2016, amounts to €137,380 thousand.

Credit quality

Again in 2016, as described below, the quality of credit remains significant: net non-performing receivables amount to €12,065 thousand, an increase over 2015, mainly due to the acquisition of Magellan and the development of receivables purchased from territorial entities.
The ratio of net non-performing to total receivables from customers is 0.48%.
The Bank carried out an analysis of the receivables portfolio to identify any impairment of its financial assets.
This internal analysis by BFF made it possible to distinguish between "performing" and "non-performing" receivables, including in the latter category, financial assets that show an individual risk of loss, while the remaining financial assets have been classified in the performing category.
Performing receivables include receivables due from customers that, while more than 90 days past due, show no objective indication of loss at an individual level.
Although the receivables are owed almost entirely by the Public Administration, as in previous years, when preparing its annual financial statements or interim reports, the Group, as required by

IAS 39, carries out a collective assessment (impairment test) of its performing receivables in order to correctly monitor the quantitative content.
In order to determine the Loss Given Default (LGD), BFF assumed the value proposed by the "Basel Accord Framework" for unsecured receivables from sovereign states, companies and banks as being equal to 45% of the Probability of Default (PD) found.
The collective assessment of the PD was performed by assigning a rating to the debtors (ASLs/AOs), corresponding to the credit rating assigned by the major rating agencies for the particular Region to which the debtors belong. This rating was then applied to the exposures not classified as non-performing Exposures At Default (EAD).

At December 31, 2016, the collective impairment test indicated an impairment loss of about €3.2 million. The increase of €0.3 million from 2015 was mainly due to an increase in the Group's outstanding receivables.
Magellan and its subsidiaries applied the provisions of IAS 39 even before the acquisition by Banca Farmafactoring, performing a collective assessment. However, the composition of Magellan's portfolio is different from Banca Farmafactoring's portfolio mainly because the most important exposures are with private debtors. Consequently, the assessment of receivables is made by applying a percentage to the receivable's purchase value that varies in relation to the type of counterparty to which the exposure refers. The collective impairment test indicated an impairment loss of €2.3 million.
BFF classified receivables from customers into "performing receivables" and "impaired receivables," in accordance with the provisions of Bank of Italy Circular No. 262 of December 22, 2005, and subsequent updates, "Bank Financial Statements: layout and preparation rules."
On this point, on July 24, 2014, the European Banking Authority (EBA) published "Final draft implementing technical standards on supervisory reporting on forbearance and non-performing exposures" (EBA/ITS /2013/03/rev1 24/7/2014): this document introduces new definitions for impaired assets and forbearance measures.
These definitions, which were adopted by the Bank of Italy with the seventh update to Circular No. 272 of January 20, 2015, call for impaired assets to be classified into the following categories:

- past due more than 90 days for impaired and performing exposures;
- probable defaults;
- non-performing exposures.

Within all these categories are subcategories for forborne exposures.

"Net impaired assets" total €61,847 thousand and correspond to the sum of:
- past due exposures;
- probable defaults;
- non-performing exposures.

Past due exposures
These are exposures with central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies that, at December 31, 2016 were more than 90 days past due.
Specifically, exposures with central administrations and central banks, public sector entities and territorial entities are deemed past due when the debtor has not made any payments for any debt

positions owed to the financial intermediary for more than 90 days.
At December 31, 2016, the total net past due receivables amount to €46,167 thousand compared to €43,234 thousand at December 31, 2015, mainly in reference to the territorial entities.

Probable defaults

The "unlikely to pay" concept is used to define this type of exposure and, consequently, the probable default reflects the judgment made by the intermediary about the unlikeliness, absent such actions as the enforcement of guarantees, that the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts or installments.
Therefore, it is not necessary to wait for an explicit sign of anomaly (e.g., failure to repay) when there are factors that signal a default risk situation for the debtor. Exposures with retail customers can be classified in the probable default category at the individual transaction level, provided the intermediary believes that the conditions for classifying in this category the entire amount of exposures with same debtor cannot be met.
At December 31, 2016, the Group has a net unlikely to pay amount of €3,614 thousand referring entirely to Magellan.

Non-performing exposures

These are exposures with parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections recognized by the company. At December 31, 2016, the total of non-performing receivables for the Group, net of writedowns due to estimated impairment losses, is €12.1 million, of which €7.2 million refers to BFF and €4.9 million to Magellan.
At December 31, 2016, the total of non-performing receivables for BFF and Farmafactoring España, net of writedowns for estimated impairment losses, is €7.2 million.
Of this amount, €0.5 million refers to local government entities that were already distressed when the receivables were purchased. Another €0.9 million is owed by Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition with creditors.
The other non-performing positions total about €8.6 million, including positions amounting to about €1.7 million that were completely written off against the provision for impairment and, consequently, have a zero balance. BFF's remaining positions, totaling about €6.9 million, are written down based only on the time value, as they consist of positions secured by sureties and exposures with local government entities in distress (including €0.5 million already purchased as distressed), for which no provisions were recognized, as the distressed condition is expected to be remedied resulting in the collection of 100% of the claim.
The portion of late-payment interest relating to non-performing positions, recognized when the estimate criteria were changed, in 2014, amounts to €13.6 million and was completely written off. This refers mainly to the position with Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition agreement with creditors.

As for Magellan, total non-performing exposures, net of writedowns due to estimated impairment losses of €1,950 thousand, is €4,872 thousand.

Unlike the considerations made for non-performing exposures, the assessment of past due exposures is made at the portfolio level since such positions do not display objective indication of individual impairment loss.

The composition of impaired assets at December 31, 2016 compared to the prior year is presented in the following table.

(in € thousands)

	12/31/2016			12/31/2015		
Type	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Non-performing	**30,003**	**(17,938)**	**12,065**	**17,822**	**(15,315)**	**2,507**
Exposures with assignors	3,589	(1,220)	2,369	514	(281)	234
Exposures with account debtors	12,818	(3,122)	9,696	3,712	(1,438)	2,273
Provision for late-payment interest	13,596	(13,596)	0	13,596	(13,596)	
Probable defaults	**3,715**	**(101)**	**3,614**	**0**	**0**	**0**
Exposures with assignors	2,837	(77)	2,759	0	0	0
Exposures with account debtors	878	(24)	855	0	0	0
Past due	**46,250**	**(82)**	**46,167**	**43,310**	**(76)**	**43,234**
Exposures with assignors	533	0	533	0	0	0
Exposures with account debtors	45,716	(82)	45,634	43,310	(76)	43,234
Total	**79,968**	**(18,122)**	**61,847**	**61,132**	**(15,390)**	**45,741**

The following table presents non-recourse receivables purchased, with an indication of the relative impairment losses, divided into "Performing exposures" and "Impaired Exposures". The impairment loss for "Performing Exposures" represents a collective impairment. The amounts in the following table are net of the provision for late-payment interest.

(in € thousands)

Type	12/31/2016 Gross amount	12/31/2016 Impairment losses	12/31/2016 Net amount	12/31/2015 Gross amount	12/31/2015 Impairment losses	12/31/2015 Net amount
Impaired exposures purchased performing	58,084	(2,489)	55,595	46,210	(1,446)	44,764
Impaired exposures purchased impaired	971	(479)	492	812	(69)	743
Performing receivables	2,049,847	(4,056)	2,045,791	1,884,288	(3,750)	1,880,538
Total	**2,108,901**	**(7,023)**	**2,101,878**	**1,931,310**	**(5,265)**	**1,926,045**

Property, plant and equipment

(in € thousands)

Items	12/31/2015	Net increase	Net decrease	12/31/2016	% of total
Buildings	7,470	0	(325)	7,145	55.01%
Land	3,685	0	0	3,685	28.37%
Plant	221	179	(104)	296	2.28%
Furniture and fixtures	214	69	(56)	228	1.75%
Electronic machines	851	547	(587)	810	6.24%
Other	225	809	(210)	825	6.35%
Total	**12,666**	**1,604**	**(1,282)**	**12,988**	**100.00%**

At the date of IFRS first-time adoption (January 1, 2005), buildings owned and used by the Group in its business activities (Milan and Rome) were measured at fair value, which became the new carrying amount of the assets as of that date.
The measurement at first-time adoption resulted in a revaluation of the buildings for approximately €4 million, from approximately €5 million to €9 million. The amortized value of the buildings is now €7.1 million.
The largest increases refer to hardware purchases under electronic machines, while those referring to the buildings under other are for the restructuring of the property owned in Milan.

Tax assets and liabilities

(in € thousands)

Items	12/31/2016	12/31/2015	Change
Tax assets	**25,870**	**28,053**	**(2,183)**
current	21,451	25,113	(3,662)
deferred	4,419	2,940	1,479
Tax liabilities	**73,658**	**70,583**	**3,075**
current	24,129	23,805	324
deferred	49,529	46,778	2,751

Current tax assets total €21,451 thousand and mainly include advance payments for IRES and IRAP taxes made by BFF.
Current tax liabilities amount to €24,129 thousand and include the accrual for income taxes for the year of the companies in the Group.
Deferred tax liabilities amount to €49,529 thousand and mainly include the taxes calculated on accrued late-payment interest which will be paid when the interest is collected.

Due to banks and customers

(in € thousands)

Items	12/31/2016	12/31/2015	Change
Due to banks	634,807	688,081	(53,274)
Due to customers	2,996,142	1,726,683	1,269,459
Of which financial institutions	*231,790*	*266,922*	*(35,132)*
Total	**3,630,949**	**2,414,764**	**1,216,185**

"Due to banks" refers to loans secured from the banking system by BFF and the subsidiary Magellan.

"Due to financial institutions" mainly refers to:
• a facility amounting to €118.5 million in existing collaboration from International Factor Italia S.p.A. - IFITALIA;
• a facility amounting to €113.3 million in existing collaboration from Unicredit Factoring S.p.A..

"Due to customers" includes €822.4 million for the online deposit accounts Conto Facto and Cuenta Facto, and €1,809 million for reverse repurchase agreements with the counterparty Cassa di Compensazione e Garanzia executed to refinance BFF's securities portfolio.

Debt securities issued

On June 21, 2016, BFF successfully completed the placement of senior unsecured bonds, which join the previous bonds of €300 million issued in 2014 with a maturity date of June 12, 2017, having similar characteristics.
The bonds were issued through a private placement reserved for institutional investors for a total face value of €150 million. The 5-year bonds, which have a maturity date of June 21, 2021, are unsecured and unrated.
The bonds are measured at amortized cost using the effective interest method.
In August 2016, the existing securitization transaction with the Deutsche Bank Group was renewed for €85 million and is aimed at diversifying funding activities.
Debt securities issued also include the bonds issued by the subsidiary Magellan for €95.9 million.
The balance of debt securities issued at December 31, 2016 totals €634 million.

Provisions for risks and charges

At December 31, 2016, "Provisions for risks and charges" total €6,989 thousand. They mostly include accruals for "Long-term employee benefits" of €6,343 thousand.

(in € thousands)

Items	12/31/2015	Increases	Decreases	12/31/2016
Long-term employee benefits	4,830	2,069	(556)	6,343
Total	**4,830**	**2,069**	**(556)**	**6,343**

Long-term employee benefits are measured pursuant to IAS 19 using actuarial criteria.

Comments on the Reclassified Consolidated Income Statement

The statutory net profit for 2016 is €72.1 million, up approximately 5% compared to 2015. The subsidiary Magellan contributed to the result for the year for seven months since it was acquired on May 31, 2016.

If consideration is not given to the non-recurring costs related to the acquisition of Magellan of €7.6 million, other non-recurring expenses, which amount to €2.5 million, and the extraordinary contributions made to the National Resolution Fund, which amount to €1.5 million, the profit of the Group would have been €83.6 million.
If account is also taken of the profit of Magellan for the first five months of the year, prior to the acquisition by the Group, the consolidated profit of the Group would be €87.6 million.

The key line items in the reclassified consolidated income statement are commented below and described in greater detail in the Notes in Part C.

Operating income

(in € thousands)

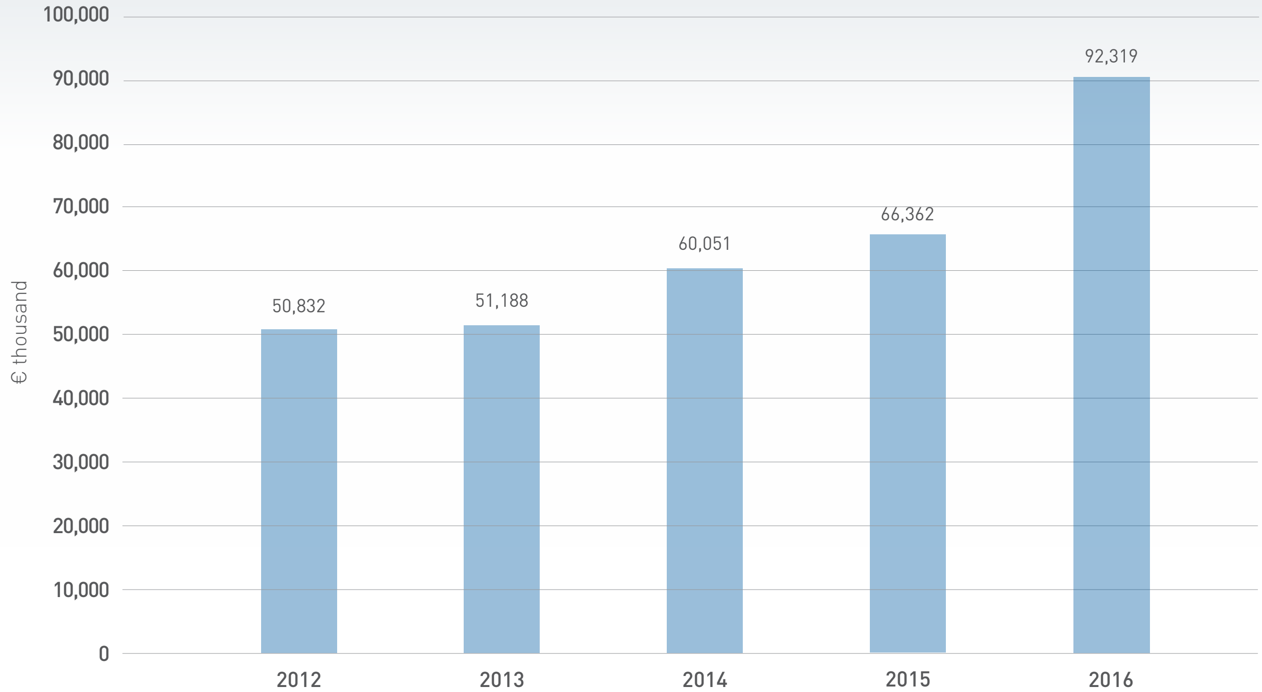
Item	2016	2015	Change
Maturity commissions and late-payment interest on non-recourse receivables	163,165	154,364	8,801
Interest income on securities	4,097	5,848	(1,751)
Other interest	22,964	1,734	21,230
Interest income	**190,226**	**161,946**	**28,280**
Interest expense	**(31,020)**	**(28,898)**	**(2,122)**
Net fees and commissions	**3,355**	**7,943**	**(4,588)**
Dividends and similar income	**60**	**0**	**60**
Gains (losses) on trading	**682**	**46**	**636**
Fair value adjustments in hedge accounting	**(1)**	**(23)**	**22**
Gains (losses) on sale of AFS financial assets	**705**	**872**	**(167)**
Operating income	**164,007**	**141,885**	**22,121**

The recognition of "maturity commissions" and late-payment interest on purchases of non-recourse receivables in the consolidated income statement reflects the effective return from the application of the amortized cost criterion for measuring non-recourse receivables purchased, in accordance with IAS 39. This implies that the income is recognized in relation to the return deriving from the expected cash flows.
The amount of maturity commissions and late-payment interest on non-recourse receivables total €163,165 thousand in 2016 compared to €154,364 thousand in 2015.
The following chart shows the cumulative amount of late-payment interest to which the Group is entitled but has not yet collected on non-recourse receivables purchased (the Provision for late-payment interest). The total is €547 million compared to €460 million in the prior year. As of December 31, 2016 an amount of €186 million has been recognized in income in the current and prior years.

Banking Group - Provision for late-payments interest

The following chart illustrates the trend of late-payment interest collected over the last five years.

Banking Group - Late-payment interest collected



"Interest income on securities" originates from government securities classified in the available-for-sale and held-to-maturity portfolios. These securities are measured using the amortized cost method according to which the interest generated is recorded in the income statement using the effective rate of return.

Other interest mainly refers to Magellan's income on funding activities.

Compared to 2015, interest expenses increased by about €2.1 million due to Magellan's interest expenses which, for the seven months that it has been in the Group, totaled €6.4 million.
Considering only BFF and Farmafactoring España, interest expenses recorded during the year decreased by €4.3 million. The decrease is due to a reduction in the cost of money as a result of renegotiating certain loans and facilities, diversifying the forms of deposit-taking, refinancing the government securities portfolio and despite a greater average financial exposure recorded during the year in order to support the Group's growth.

Net fees and commissions

The income from net fees and commissions shows a decrease of approximately €4,588 thousand compared to the prior year as presented in the following table.

(in € thousands)

Items	2016	2015	Change	Change %
Fee and commission income	7,832	8,389	(556)	(6.63%)
Fee and commission expenses	(4,478)	(446)	(4,032)	904.75%
Net fees and commissions	**3,355**	**7,943**	**(4,588)**	**(57.76%)**

The increase in expenses from fees and commissions is mainly due to the conclusion of the process to delist the subsidiary Magellan.
In fact, on October 27, 2016, the waiver process for the bonds issued by Magellan was successfully completed and, at the same time, specific waivers were obtained from the holders of the two bonds issued directly by BFF, as well as from the counterparties of some loan agreements entered into by BFF, aimed at preventing that the cross-default clauses in the bonds and in these loan agreements could be triggered in the event of a significant event of default for the Group, which could have been the delisting of Magellan.
Following the positive outcome of the waiver process, the delisting of Magellan's shares does not constitute either an event of default for any of Magellan's bonds or for any other loan of the Group.

Gains (losses) on trading

"Gains (losses) on trading" amount to €682 thousand and include the exchange differences that were generated on loans in foreign currencies among the Group companies and with other financial intermediaries.
They also include the recognition of fair value changes on derivatives for which hedge accounting is not applied.
More specifically, the financial instruments recorded in this category are represented by derivative contracts executed for the purpose of hedging the change in exchange rates through the forward sale of foreign currency at a spot rate. These financial derivative contracts are recognized as assets or liabilities held for trading pursuant to the provisions of IAS 39, even though at the operational level they are considered risk hedging instruments.
Specifically, with regard to Magellan, in 2016 foreign exchange swap agreements were executed to hedge the principal and interest on the bonds issued by Magellan (to be repaid in euros), from the fair value changes arising from fluctuations in the euro-zloty exchange rate.

Net result of hedging activities

A hedge is considered effective if, both at inception and during its life, the changes in the hedged item's fair value or cash flows are offset by the changes in the hedging derivative's fair value. In this case the fair value changes are recorded in equity.
The ineffectiveness of the hedge is represented by the difference between the change in the fair value of the hedging instrument and the change in the fair value of the hedged item, both represented in the income statement, at item 90. In 2016, this item is a negative €1 thousand.
BFF, at December 31, 2016, has an interest rate swap contract with a notional amount in Polish currency (zloty) put in place to hedge a variable rate medium-term loan obtained in 2016 from changes in future cash flows from fluctuations in market interest rates (Wibor).
BFF executed foreign exchange swap contracts to hedge intragroup loans (between BFF and Magellan) entered into in 2016 in Polish currency (zloty) and in Czech currency (koruna) from changes in fair value arising from fluctuations in the euro-zloty and euro-koruna exchange.

Objectives and Policies on the Assumption, Management and Hedging of Risks

Going concern

In accordance with IAS 1, paragraph 24, the Group assesses its ability to continue as a going concern by taking into account the trend of its main core indicators and available information about the future for at least 12 months after the reporting date.

Performance review
A performance review of the last few years shows a continuing positive trend.
The data can be summarized as follows:
• trend indicating a growth of equity;
• steady increase in the number of staff over the last few years;
• adequacy of capital in relation to the risks connected with lending activities;
• sufficient availability of financial resources;
• positive commercial prospects associated with the trend in demand.

(in € millions, unless otherwise stated)

Items	2016	2015	2014 (2)
Net interest margin	159.2	133.0	208.3
Operating income	164.0	141.9	218.0
EBTDA	103.9	99.6	187.8
Profit for the year	**72.1**	**68.8**	**124.4**
R.O.E. *(Return On Equity)* (%)	**28%**	**26%**	**67%**
Operating income / Non-recourse volumes (%)	5.5%	4.8%	10.0%
Financial expenses / Maturity commissions (%)	29.5%	45.5%	60.3%
Net interest margin / Interest income and similar revenues (%)	83.7%	82.2%	82.5%
Non-performing (net of impairment losses) / Factoring receivables (%)	0.50%	0.14%	0.19%
Own Funds / Weighted factoring receivables (%) 1	24.9%	38.4%	42.1%
Financial leverage	18.1	12.7	16.3
Equity	**333.7**	**331.3**	**310.8**
Own Funds	**235.0**	**259.3**	**260.1**

(1) The weighting applied to receivables due from the Italian Public Administration is equal to 50%.
(2) The figures for 2014 take into account non-recurring income arising from the change in the estimation criterion for late-payment interest.

A quantitative summary of such review is presented in the following table:

Prospective review

The considerations described before are borne out by the Business Plan for the three years 2014 – 2017, approved by the BFF Board of Directors in May 2014 and updated in March 2015 and then March 2016, from which it can be seen that, in prospective terms, there are good expectations from both the standpoint of turnover and earnings.

Commercial efforts will be directed, from the broader prospective of a Banking Group, both towards cementing and expanding relations with the traditional clientele and also acquiring new clientele and developing new products.

In an economic and financial context that is still challenging, the Group has further strengthened its position in the country by building up commercial relations and diversifying banking relations in order to reduce, as much as possible, the risk of the concentration of relationships and minimizing the timing process for the crediting of sums made available by the entities of the National Health System and the Public Administration.

In view of the aforementioned considerations associated with the historical and prospective review of its earnings and its ability to access financial resources, the Group will continue its operating activities under the assumption of a going concern and, consequently, these financial statements are drawn up under such assumption.

Risk management and compliance with prudential supervision regulations

The prudential supervision regulations are regulated by the Bank of Italy Circular No. 285 *"Oversight provisions for banks"* and Circular No. 286 *"Instructions for the preparation of supervisory reporting by banks and securities intermediaries"*, both of December 17, 2013, and subsequent updates, which adopt the new regulation harmonized for banks and investment firms, contained in the CRR community regulation (*Capital Requirements Regulation*) and in the European Directive CRD IV (*Capital Requirement Directive*) of June 26, 2013.

These regulations include the standards set forth by the Basel Committee for banking regulations (known as the Basel 3 framework), whose implementation, pursuant to the Consolidated Law on Banking, is the responsibility of the Bank of Italy, and define the ways with which the discretionalities attributed by community discipline to the national authorities were exercised.

The above circulars outline the complete, organic, rational and integrated regulatory framework with the directly applicable community provisions, which will be completed with the emanation of the execution measures, contained in the regulatory technical standard and implementation technical standard, adopted by the European Commission under the proposal by the European Banking Authority (EBA).

The regulation applicable at December 31, 2016 is based on three pillars.

Pillar I – Capital adequacy to meet the typical risks associated with financial liabilities

From the standpoint of operations, the absorption of risks is calculated using various methods:
- credit risk → standardized approach
- counterparty risk → standardized approach
- market risk → standardized approach
- operational risk → basic approach

Own Funds

Own funds represent the first line of defense against risks associated with overall financial activities and constitutes the main parameter of reference for the assessment of the capital adequacy of the Group. The purpose of the prudential supervision regulation is to assure the Regulatory Authority that the banks have a minimum obligatory capital in relation to the risks assumed.

The Group constantly assesses its capital structure, developing and utilizing techniques for monitoring and managing regulated risks, assisted also by its internal Risk Committee.
From the standpoint of prudential supervision, the amount of capital required is determined on the basis of current reporting regulations.

Own Funds are composed of Common Equity Tier 1 Capital (CET1), which contain the main elements that form Own Funds, Additional Tier 1 Capital (AT1) and Tier 2 Capital (T2) net of items to be deducted and IAS/IFRS prudential filters.

The CET1 Capital Ratio is given by the ratio of Common Equity Tier 1 Capital to Risk-Weighted Assets.
The Tier 1 Capital Ratio is given by the ratio of Tier 1 Capital to Risk-Weighted Assets.
The Total Capital Ratio is given by the ratio of Total Own Funds to Risk-Weighted Assets.

In accordance with the provisions of Bank of Italy Circular No. 262 of December 22, 2005, "Bank financial statements: presentation format and preparation rules", and subsequent updates, the amount of risk-weighted assets is determined as the product of the total of prudential capital requirements and 12.5 (the inverse of the minimum obligatory ratio equal to 8%).

The Group's total exposure to risks at December 31, 2016, in relation to its business, is adequate according to the level of capitalization and the risk profile identified.

The following table presents the capital adequacy of the CRR Group, with BFF Luxembourg S.à r.l. as the majority shareholder of Banca Farmafactoring. The CET1 Capital Ratio, the Tier 1 Capital Ratio and the Total Capital Ratio of the CRR Group are 16.4%, 16.5% and 16.6%, respectively.

(in € millions, unless otherwise indicated)

Details	Total 12/31/2016	Total 12/31/2015
Common Equity Tier 1 Capital - CET1	232	255
Additional Tier 1 Capital	1	1
Tier 2 Capital	2	2
Own Funds	**235**	**258**
Risk-weighted assets – RWA	1,415	1,069
CET1 Capital Ratio (%)	**16.4%**	**23.9%**
Tier 1 Capital Ratio (%)	**16.5%**	**24.0%**
Total Capital Ratio (%)	**16.6%**	**24.1%**

The following table presents the capital adequacy of the Group according to the Consolidated Law on Banking, with Banca Farmafactoring as the parent, and does not include BFF Luxembourg S.à r.l.. The CET1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio are equal to 16.7%.

(in € millions, unless otherwise indicated)

Details	Total 12/31/2016	Total 12/31/2015
Common Equity Tier 1 Capital - CET1	235	259
Additional Tier 1 Capital	0	0
Tier 2 Capital	0	0
Own Funds	**235**	**259**
Risk-weighted assets – RWA	1,411	1,066
CET1 Capital Ratio (%)	**16.7%**	**24.3%**
Tier 1 Capital Ratio (%)	**16.7%**	**24.3%**
Total Capital Ratio (%)	**16.7%**	**24.3%**

The reduction in Own Funds and capital ratios, as also described in the Notes in Part F, is due to the acquisition of the Magellan Group, acquisition financed exclusively, from the standpoint of regulatory capital, with own funds. This had an impact of €22.1 million on Own Funds after the recognition of goodwill, and €27 million for higher capital requirements, relative to the Magellan Group's business.

BFF adopted the ECAI Dominion Bond Rating Service (DBRS). The unsolicited rating assigned to the Italian Republic by DBRS, on January 13, 2017, went from "A low" to "BBB high" and, consequently, the country was downgraded from Credit Quality Class 2 to Credit Quality Class 3.
The exposures for receivables from the Italian Public Administration, which include those from entities belonging to the National Healthcare System and Local Healthcare Entities (ASL), therefore, starting from the March 2017 supervisory reporting, will be rated in Credit Quality Class 3, with a 100% weighting, compared to 50% adopted up to December 31, 2016.
The Group is already taking steps in its management of capital to meet the capital requirement needs deriving from the impacts of the aforementioned downgrade.

Pillar II – Internal Capital Adequacy Assessment Process (ICAAP) Summary

The supervisory regulation requires intermediaries to adopt control strategies and processes for determining the adequacy of current and future capital. It is the Regulatory Authority's responsibility to verify the reliability and accuracy of the results generated and, where necessary, takes appropriate corrective action.

By April 30, 2017 the Group must submit the "ICAAP Summary to the Bank of Italy, updating the risk management system aimed at the determination of the capital adequacy.

Pillar III – Disclosure to the public

Pursuant to Article 433 of the CRR, banks disclose the information required by community regulations in a document at least once a year, together with their financial statements.
The regulation relating to Pillar III establishes specific obligations for the periodic publication of information relating to capital adequacy, exposure to risks and the general features of the systems used for their identification, measurement and management.

The Group draws up this document in accordance with the provisions in effect on a consolidated basis, with reference to a scope of consolidation that is considered significant by regulatory requirements.

To this end, the Board of Directors of BFF has approved a dedicated procedure denominated "Disclosure to the Public (Pillar III)".

The procedure provides that the information should be:
- approved by the Board of Directors before its distribution;
- published on the website **www.bancafarmafactoring.it** at least once a year, within the time frame

established for the publication of the financial statements, thus within 30 days of the date of the approval of the financial statements by the Shareholders' Meeting.

With regard to the provisions of the Bank of Italy Circular No. 285 of December 17, 2013, and subsequent updates, the Group will publish on its website **www.bancafarmafactoring.it**, once a year, within the time frame established for the publication of the financial statements, the "Disclosure to the Public", which, in accordance with country by country reporting requirements contains information inherent to the business, turnover and the number of staff in the various countries in which the Group is present.
The information to be rendered public is defined by Appendix A, first part, Title III, Chapter 2 of the above Circular.

Reconciliation between Equity and Profit for the Year of the Parent and the Consolidated Figures of the Group

(in € thousands)

	Equity 12/31/2016	of which Profit 2016	Equity 12/31/2015	of which Profit 2015
Banca Farmafactoring S.p.A.	**323,432**	**70,314**	**321,572**	**59,659**
Effect of transactions among Group companies (including dividends)	(662)	(8,022)		
Farmafactoring España – consolidation investment eliminations	1,690		580	
Farmafactoring España – profit	7,317	7,317	9,131	9,131
Magellan – profit	2,851	2,851		
Exchange differences	(558)			
Other consolidation adjustments	(324)	(324)		
Consolidated figures of the Group	**333,746**	**72,136**	**331,283**	**68,791**

Other Information Required by Article 2428 of the Italian Civil Code

Other information required by Article 2428 of the Italian Civil Code, not provided in the preceding paragraphs, is presented below.

Treasury shares
The Bank does not possess treasury shares or quotas of the parent, either directly, through individuals or trustee companies.

Significant events subsequent to the end of the year
There are no events or facts subsequent to the end of the reporting period such as to require an adjustment to the results of the financial statements for the year ended December 31, 2016.

Appropriation of the Profit of the Banking Group

The profit of the Banking Group for the year ended December 31, 2016 is €72,136,499.
Considering that the Total Capital Ratio of the CRR Group is 16.4%, consistently with the dividend policy approved by the BFF Board of Directors, which calls for a 15% total capital ratio target for the CRR Group, a motion is put forward for the distribution of the entire consolidated profit of the Banking Group.

The financial statements of Banca Farmafactoring for the year ended December 31, 2016 show a profit of €70,313,719. A motion is made for the appropriation of €16,540 to the legal reserve, in order to reach the maximum limit established by law, and of €70,297,179 to be distributed to the shareholders.
A motion is also put forward to appropriate €1,828,359 to the shareholders to be drawn from the retained earnings of Banca Farmafactoring, so that the total dividends are equal to €72,125,538, in line with the profit of the Banking Group.
The shareholders will therefore be entitled to a dividend of €42.40 for each of the 1,701,074 shares.

As for the subsidiaries, the Ordinary Shareholders' Meeting of the subsidiary Farmafactoring España held on February 7, 2017 approved the financial statements for the year ended December 31, 2016 and resolved to appropriate the profit for the year of €7,316,872 to retained earnings.
A motion will be made at the Magellan Shareholders' Meeting to appropriate the profit for the year ended December 31, 2016 of €6,839,388 (a profit of €2,851,408 for seven months in the financial statements of the Group) to retained earnings.

The following motion for the appropriation of the profit of Banca Farmafactoring will be put forward to the Shareholders' Meeting of the Bank on March 9, 2017, in first call, or on March 15, 2017, in second call.

Motion for the Appropriation of the Profit of Banca Farmafactoring

Dear Shareholders,
The financial statements for the year ended December 31, 2016 of Banca Farmafactoring, which we submit for your approval, show a profit of €70,313,719, which the Board motions to appropriate as follows:
- €16,540 to the legal reserve to reach the maximum limit by law;
- €70,297,179 to the shareholders.

The Board also motions to appropriate €1,828,359 to the shareholders to be drawn from retained earnings, so that the total dividends are equal to €72,125,538, in line with the profit of the Banking Group.
The shareholders will therefore be entitled to a dividend of €42.40 for each of the 1,701,074 shares.
After appropriation of the profit, retained earnings will be equal to €89,543,457.

The Chairman
of the Board of Directors
Salvatore Messina

02 CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2016

Consolidated Balance Sheet

(in euros)

Assets		12/31/2016	12/31/2015
10.	Cash and cash balances	149,035	159,775
20.	Financial assets held for trading	244,420	0
30.	Financial assets designated at fair value	3,401,129	0
40.	Available-for-sale financial assets	385,279,885	429,437,687
50.	Held-to-maturity financial assets	1,629,319,849	822,858,767
60.	Due from banks	144,871,367	60,522,545
70.	Due from customers	2,499,094,435	1,962,004,347
80.	Hedging derivatives	529,027	0
100.	Equity investments	301,567	0
120.	Property, plant and equipment	12,988,330	12,665,596
130.	Intangible assets	25,811,363	2,746,916
	of which		
	- goodwill	*22,146,189*	*0*
140.	Tax assets	25,870,072	28,053,378
	a) current tax assets	*21,450,987*	*25,113,356*
	b) deferred tax assets	*4,419,084*	*2,940,022*
	Of which for purpose of Law 214/2011	*748,650*	*546,940*
160.	Other assets	7,135,948	3,105,924
	Total assets	**4,734,996,427**	**3,321,554,935**

(in euros)

Liabilities and Equity	12/31/2016	12/31/2015
10. Due to banks	634,806,875	688,080,771
20. Due to customers	2,996,142,256	1,726,682,877
30. Debt securities issued	634,282,882	452,962,115
40. Financial liabilities held for trading	7,248	0
60. Hedging derivatives	176,037	0
80. Tax liabilities	73,658,616	70,582,775
a) current tax liabilities	*24,129,771*	*23,804,794*
b) deferred tax liabilities	*49,528,845*	*46,777,981*
100. Other liabilities	54,319,925	45,884,998
110. Provision for employee severance indemnities	867,129	883,124
120. Provisions for risks and charges	6,989,235	5,194,831
a) pension fund and similar obligations	*6,342,956*	*4,829,872*
b) other provisions	*646,279*	*364,959*
140. Revaluation reserves	4,494,859	4,183,573
170. Reserves	126,132,168	127,409,048
190. Issued capital	130,982,698	130,900,000
220. Profit for the year	72,136,499	68,790,823
Total liabilities and equity	**4,734,996,427**	**3,321,554,935**

Consolidated Income Statement

(in euros)

Items		2016	2015
10.	Interest income and similar revenues	190,225,502	161,945,547
20.	Interest expense and similar expenses	(31,020,474)	(28,898,423)
30.	**Net interest margin**	**159,205,028**	**133,047,124**
40.	Fee and commission income	7,832,442	8,388,544
50.	Fee and commission expenses	(4,477,743)	(445,659)
60.	**Net fees and commissions**	**3,354,700**	**7,942,885**
70.	Dividends and similar income	60,488	0
80.	Gains (losses) on financial assets and liabilities held for trading	681,837	45,760
90.	Fair value adjustment in hedge accounting	(1,011)	(22,837)
100.	Gains (losses) on disposals and repurchases of:		
	b) available-for-sale financial assets	705,563	871,871
120.	**Operating income**	**164,006,605**	**141,884,803**
130.	Net losses/recoveries on impairment:		
	a) receivables	(2,180,160)	(1,125,531)
	b) available-for-sale financial assets	(63,885)	0
140.	**Net profit from financial activities**	**161,762,560**	**140,759,272**
170.	**Net profit from financial and insurance activities**	**161,762,560**	**140,759,272**
180.	Administrative costs:		
	a) personnel costs	(24,923,620)	(18,476,448)
	b) other administrative expenses	(38,717,534)	(27,090,536)
190.	Net provisions for risks and charges	(2,075,111)	(879,257)
200.	Net writeoffs/writebacks on property, plant and equipment	(1,282,155)	(1,114,700)
210.	Net writeoffs/writebacks on intangible assets	(1,334,042)	(1,022,515)
220.	Other operating income (expenses)	5,703,586	4,143,812
230.	**Operating costs**	**(62,628,875)**	**(44,439,644)**
280.	**Profit (loss) before tax from continuing operations**	**99,133,685**	**96,319,628**
290.	Income taxes on profit (loss) from continuing operations	(26,997,186)	(27,528,805)
300.	**Profit (loss) after tax from continuing operations**	**72,136,499**	**68,790,823**
320.	**Profit for the year**	**72,136,499**	**68,790,823**
340.	**Profit for the year attributable to owners of the parent**	**72,136,499**	**68,790,823**

Statement of Consolidated Comprehensive income

(in euros)

Items	2016	2015
10. Profit for the year	**72,136,499**	**68,790,823**
Other comprehensive income after tax not reclassified to profit or loss		
20. Property, plant and equipment		
30. Intangible assets		
40. Defined benefit plans	(23,955)	(121,102)
50. Non-current assets classified as held for sale		
60. Portion of revaluation reserves from investments valued at equity		
Other comprehensive income after tax that may be reclassified to profit or loss		
70. Hedges of foreign investments		
80. Exchange differences	(557,585)	
90. Cash flow hedges	345,560	26,669
100. Available-for-sale financial assets	(10,319)	243,082
110. Non-current assets classified as held for sale		
120. Valuation reserves from investments accounted for using the equity method		
Hedges of foreign investments		
130. Total other comprehensive income	**(246,299)**	**148,649**
140. Comprehensive income (Items 10+130)	**71,890,200**	**68,939,472**
150. Consolidated comprehensive income attributable to non-controlling interests		
160. Consolidated comprehensive income attributable to owners of the parent	**71,890,200**	**68,939,472**

Statement of Changes in Consolidated Equity at

At December 31, 2016

	At December 31, 2015	Change in opening balance	At January 1, 2016	Appropriations of profit from previous year		Changes during the year									Equity attributable to owners of the parent at December 31, 2016	Equity attributable to non-controlling interests at December 31, 2016
							Equity transactions									
				Reserves	Dividends and other appropriations	Changes in reserves	Issue of new shares	Purchases of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Issue of own shares	Stock options	Changes in shareholdings	Comprehensive income 2016		
Issued capital:																
- *ordinary shares*	130,900,000		130,900,000												**130,900,000**	
- *other shares*							82,698								**82,698**	
Share premium																
Reserves:																
- *from profits*	127,409,048		127,409,048	9,131,372		(9,850,667)								(557,585)	**126,132,168**	
- *other*																
Revaluation reserves	4,183,573		4,183,573											311,286	**4,494,859**	
Equity instruments																
Treasury shares																
Profit for the year	68,790,823		68,790,823	(9,131,372)	(59,659,457)									72,136,499	**72,136,499**	
Total equity attributable to owners of the parent	**331,283,444**		**331,283,444**		**(59,659,457)**	**(9,850,667)**	**82,698**							**71,890,200**	**333,746,224**	
Equity attributable to non-controlling interests																

(in euros)

At December 31, 2015

				Appropriations of profit from previous year		Changes during the year										
							Equity transactions									
	At December 31, 2014	Change in opening balance	At January 1, 2015	Reserves	Dividends and other appropriations	Changes in reserves	Issue of new shares	Purchases of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Issue of own shares	Stock options	Changes in shareholdings	Comprehensive income 2015	Equity attributable to owners of the parent at December 31, 2015	Equity attributable to non-controlling interests at December 31, 2015
Issued capital:																
- *ordinary shares*	130,900,000		130,900,000												**130,900,000**	
- *other shares*																
Share premium																
Reserves:																
- *from profits*	53,099,365		53,099,365	74,309,683											**127,409,048**	
- *other*	(1,617,853)		(1,617,853)	1,617,853												
Revaluation reserves	4,034,924		4,034,924											148,649	**4,183,573**	
Equity instruments																
Treasury shares																
Profit for the year	124,377,536		124,377,536	(75,927,536)	(48,450,000)									68,790,823	**68,790,823**	
Total equity attributable to owners of the parent	**310,793,972**		**310,793,972**		**(48,450,000)**									**68,939,472**	**331,283,444**	
Equity attributable to non-controlling interests																

Consolidated Statement of Cash Flows Indirect Method

(in euros)

	Year ended	
A. OPERATING ACTIVITIES	12/31/2016	12/31/2015
1. Operations	**78,391,026**	**72,931,996**
- profit or loss for the year (+/-)	72,136,499	68,790,823
- capital gains/losses on financial assets/liabilities held for trading and on assets/liabilities designated at fair value through profit and loss (+/-)	(681,837)	-
- capital gains/losses on hedging operations (+/-)	1,011	-
- net losses/recoveries on impairment (+/-)	2,244,045	1,125,531
- net write-offs/write-backs on tangible and intangible assets (+/-)	2,616,197	2,136,385
- provisions and other incomes/expenses (+/-)	2,075,111	879,257
- not cashed net premiums (-)		
- other not collected incomes and expenses from insurance activities		
- unpaid taxes and tax credits (+/-)		
- impairment/write-backs on discontinued operations net of tax effects (+/-)		
- other adjustments (+/-)		
2. Liquidity generated/absorbed by financial assets	**1,391,960,652**	**294,846,909**
- financial assets held for trading	244,420	-
- financial assets designated at fair value	3,401,129	-
- available-for-sale financial assets	(44,157,802)	59,014,854
- due from banks: at sight	84,348,822	(37,203,471)
- due from banks: other		
- due from customers	539,270,248	408,172,600
- other assets	808,853,835	(135,137,074)
3. Liquidity generated/absorbed by financial liabilities	**1,407,938,008**	**273,322,007**
- due to banks: at sight	(52,451,948)	(280,183,663)
- due to banks: other		
- due to customers	1,269,459,379	558,095,569
- debt securities issued	181,320,767	(15,600,197)
- financial liabilities held for trading	7,248	(45,760)
- financial liabilities designated at fair value		
- other liabilities	9,602,562	11,056,058
Net liquidity generated/absorbed by operating activities	**94,368,382**	**51,407,094**
B. INVESTING ACTIVITIES		
1. Liquidity generated by	**60,488**	**-**
- sales of equity investments		
- collected dividends on equity investments	60,488	
- sales of held-to-maturity financial assets		
- sales of property, plant and equipment		
- sales of intangible assets		
- sales of subsidiaries and divisions		
2. Liquidity absorbed by	**(25,591,912)**	**(2,800,532)**
- purchases of equity investments	(301,567)	-
- purchases of held-to-maturity financial assets		
- purchases of property, plant and equipment	(891,855)	(1,083,831)
- purchases of intangible assets	(24,398,489)	(1,716,702)
- purchases of sales/purchases of subsidiaries and divisions		
Net liquidity generated/absorbed by investing activities	**(25,531,424)**	**(2,800,532)**
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments	(82,698)	
- distribution of dividends and other purposes	(68,765,000)	(48,450,000)
Net liquidity generated/absorbed by funding activities	**(68,847,698)**	**(48,450,000)**
NET LIQUIDITY GENERATED/ABSORBED DURING THE YEAR	(10,740)	156,562

Reconciliation

(in € thousands)

Item	Amount 12/31/2016	Amount 12/31/2015
Cash and cash balances at the beginning of the year	159,775	3,213
Net liquidity generated/absorbed during the year	(10,740)	156,562
Cash and cash balances: effect of exchange rate changes		
Cash and cash balances at the end of the year	**149,035**	**159,775**

Notes to the Consolidated Financial Statements

The Notes are arranged in the following order:

Part A - Accounting Policies
Part B - Consolidated Balance Sheet
Part C - Consolidated Income Statement
Part D - Consolidated Comprehensive Income
Part E - Risks and related 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 REMARKS

Section 1 – Statement of compliance with the international accounting standards

The consolidated financial statements have been prepared in accordance with the international accounting principles (IAS/IFRS) issued by the IASB, approved by the European Commission as established in EC Regulation 1606 of July 19, 2002, which regulates the coming into force of IAS/IFRS, as well as the relative interpretations (IFRIC), approved by the European Commission and in effect at the end of the reporting period.
IFRS have been applied by complying with the "systematic framework" for the preparation and the presentation of the financial statements with particular reference to the fundamental principle of substance over legal form and the concept of relevance or significance of the information.

Section 2 – General preparation principles

The Consolidated Financial Statements at December 31, 2016 were prepared in accordance with the instructions provided by the Bank of Italy with Circular No. 262 of December 22, 2005 *"Bank financial statements: presentation format and preparation rules"* and subsequent updates.
The consolidated financial statements include the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the financial statements and are accompanied by the directors' report on operations.
In accordance with the provisions of Article 5, Section 2, of Legislative Decree No. 38 of February 28, 2005, the Consolidated Financial Statements are denominated in euros, as the euro is the functional currency.
All amounts included in notes are in thousands of euros, unless otherwise stated; the figures for the prior year are presented for purposes of comparison.
The valuation criteria adopted reflect the general principles of prudence, accrual basis accounting

and the going concern concept, as the directors have not identified problems in the operations, in the financial or capital situation and in the examination of risks to which the Group is exposed that provide evidence of problems regarding the Group's ability to meet its obligations in the foreseeable future and, more specifically, within the 12 months following the end of each reporting year.

Main measurement criteria

Pursuant to IAS 1 and the instructions provided by the Bank of Italy with Circular No. 262 of December 22, 2005, and subsequent updates, the main measurement criteria for the most significant items of the financial statements are presented below.

New accounting principles

New IFRS standards and amendments issued, in effect as of January 1, 2016

• *Amendment to IAS 19, "Employee Benefits"*

The amendment clarifies the application of IAS 19 for contributions to defined benefit plans by employees and third parties. These contributions are recognized by the entity as a reduction in the service cost, to the extent they are linked to the employee's service rendered in that period, rather than being attributed over the service life of the employee.

• *Amendment to IFRS 11, "Joint ventures"*

The amendments establish that an entity must apply the principles defined in IFRS 3 to recognize the accounting effects of the acquisition of an interest in a joint operation that constitutes a business. The amendment applies to the acquisition of an interest on its formation or when acquiring an interest in existing joint operations. However, an investment held previous to the coming into effect of the amendment is not revalued when the acquisition of an additional interest has the effect of maintaining control over the joint operation (meaning that the additional acquisition does not have the effect of achieving control over the joint operation).

• *Amendment to IAS 16, "Property, plant and equipment" and IAS 38,"Intangible assets", on depreciation and amortization*

The amendment to these two standards specifies that it is not appropriate to determine the depreciation or amortization rate of an asset based on the revenues that it generates in a given period.

• *Amendments to IAS 27, "Equity Method in Separate Financial Statements"*

This amendment enables entities to use, in their separate financial statements, the equity method to account for investments in subsidiaries, joint ventures and associates.

• *Annual improvements 2010-2012*

The improvements contain amendments to the following standards.

- *IFRS 2, "Share-based payment"*: amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').

- *IFRS 3, "Business combinations"*: clarifies the classification of contingent consideration and the accounting treatment of fair value changes related thereto. More specifically, it clarifies that contingent consideration classified as asset and liabilities are measured at fair value at each closing date subsequent to initial recognition and that the fair value changes are recognized in the income statement or in the statement of comprehensive income.
- *IFRS 8, "Operating Segment"*: requires entities to disclose information about their operating segments, products and services. A reconciliation is provided between segment reporting activities for disclosure purposes and the activities of the entity.
- *IAS 16, "Property, plant and equipment"*: in the case of the revaluation of property, plant and equipment (which will be measured at fair value and not at cost), the revaluation of the gross amount must be consistent with that of the net amount (meaning that the accumulated depreciation should be equal to the difference between the gross and net after the value adjustments recorded).
- *IAS 24, "Related party Disclosures"*: the amendment establishes the disclosure necessary when there is a third-party entity that provides key management personnel services to the reporting entity that prepares the financial statements.
- *IAS 38, "Intangible assets"*: in the case of the revaluation of an intangible asset (which will be measured at fair value and not at cost), the revaluation of the gross amount must be consistent with that of the net amount (meaning that the accumulated amortization should be equal to the difference between the gross and net after the value adjustments recorded).

• *Annual improvements 2012-2014*
The improvements contain amendments to the following standards.

- *IFRS 7, "Service contracts":* if an entity transfers a financial asset to another party and the conditions of IAS 39 for the derecognition of the asset can be met, the amendment to IFRS 7 requires that a disclosure be provided about any residual involvement that the entity may still have with regard to the transferred asset. More specifically, the amendment provides guidance as to the meaning of "residual involvement" and adds a specific guidance to help management determine whether or not the terms of a service agreement concerning the asset give rise to a residual involvement.

- *IAS 19, "Employee Benefits":* this standard requires that the discount rate applied to determine the present value of obligations for post-unemployment benefits be determined based on the market yields of high-quality corporate bonds and that in countries that lack a deep market for such securities the market yields of the securities of public entities should be used.

• *Amendment to IAS 1, "Presentation of financial statements" on the disclosure initiative*
This amendment clarifies the guidance provided in IAS 1 regarding materiality, aggregation of items, presentation of subtotals, structure of the financial statements and disclosures about accounting policies.
This amendment also modifies the additional disclosures required for this section concerning the other components of comprehensive income.
Lastly, it introduces some new requirements regarding general disclosures, such as, for example, a systematic presentation of the accompanying notes and the presentation of accounting principles.

- *IFRS 9 "Financial instruments" (in effect as of January 1, 2018)*

This standard replaces IAS 39 and provides a model for the measurement of financial instruments based on three categories: amortized cost, fair value and fair value with changes recognized in other comprehensive income (OCI). This standard also provides an impairment model that differs from the one currently provided in IAS 39 and is based mainly on the concept of projected impairment. The provisions governing hedge accounting were also amended.

Section 3 – Scope and principles of consolidation

The criteria adopted by the Group to define the scope of consolidation and the corresponding consolidation principles are reviewed below.

Subsidiaries

Subsidiaries are companies controlled by the Group. The Group controls a company when it is exposed to the variable returns generated by the company and has the ability to affect those returns through its power over the company. Generally, control is deemed to exist when the Company holds, directly or indirectly, more than half of the voting rights, taking also into account contingent exercisable or convertible voting rights.
Subsidiaries also include special purpose entities for which the Group is actually exposed to the majority of the risks and rewards deriving from their activities or those over which it exercises control. The existence of an equity investment in these special purpose entities is not relevant for this purpose.
All subsidiaries are consolidated line-by-line from the date when control is transferred to the Group. Conversely, they are excluded from the scope of consolidation when such control ceases.
The financial statements and accompanying notes of companies consolidated line-by-line are prepared in accordance with the IAS/IFRSs for inclusion in the consolidated financial statements.
The principles applied in line-by-line consolidation are the following:

- assets, liabilities, revenues and expenses of the entities that are fully consolidated are consolidated on a line-by-line basis, attributing to non-controlling interests, if applicable, their share of net equity and profit (loss) for the year, which are disclosed separately in equity and in the consolidated income statement;
- significant gains and losses, including the related tax effects, arising from transactions between companies consolidated line-by-line and unrealized with third parties are eliminated, except for the losses that are not eliminated when the transaction provides evidence that the transferred asset is impaired. Reciprocal receivables and payables, revenues and expenses as well as financial income and expenses are also eliminated if material;
- financial statements of subsidiaries expressed in a functional currency other than the euro are translated into euro as follows: assets and liabilities at the exchange rate at the close of the reporting year and income statement items at the average exchange rate for the year;
- translation differences on the conversion of the financial statements of these subsidiaries, arising from the application of the year-end rate for the balance sheet and the average rate for the year for the income statement are recognized in the revaluation reserves in equity, in addition to the translation differences on the equities of the subsidiaries.

All translation differences are reclassified to the income statement in the year in which the investment is disposed of.

1. Investments in subsidiaries under exclusive control

Name of the subsidiary	Registered or operational office	Relation type (1)	Investment relationship		Voting rights % (2)
			Investor	Invest. %	
A. Companies					
A.1 Consolidated line-by-line					
1. Farmafactoring España S.A.	Madrid C/ Luchana 23	1	Banca Farmafactoring	100%	100%
2. Farmafactoring SPV I S.r.l.	Milano Via Statuto 10	4	Banca Farmafactoring	0%	0%
3. Magellan S.A.	Łodz - Al. Marszalka Jozefa Pilsudskiego 76	1	Banca Farmafactoring	100%	100%
4. MedFinance S.A.	Łodz - Al. Marszalka Jozefa Pilsudskiego 76	1	Magellan S.A.	100%	100%
5. Magellan Česka Republika S.R.O.	Prague Nadrazni 29/21	1	Magellan S.A.	100%	100%
6. Magellan Central Europe S.R.O.	Bratislava Mostova 2	1	Magellan S.A.	100%	100%
7. Debt-Rnt sp. Z.O.O.	Łodz - Al. Marszalka Jozefa Pilsudskiego 76	1	Magellan S.A.	100%	100%
8. Kancelaria Prawnicza Karnowski I Wspolnik sp.k.	Łodz - Al. Marszalka Jozefa Pilsudskiego 76	4	Magellan S.A.	99%	0
9. Restrukturyzacyjna Prawnicza Karnowski I Wspolnik sp.k.	Łodz - Al. Marszalka Jozefa Pilsudskiego 76	4	Debt-Rnt sp. Z.O.O.	99%	0
A.2 Consolidated on a proportional basis					

Companies in points 8 and 9 above are limited partnerships.

Key:
(1) Relationship type:
1 = having the majority of voting rights at ordinary shareholders' meetings
2 = dominant influence at ordinary shareholders' meetings
3 = agreements with other shareholders
4 = other forms of control
5 = centralized management as per Article 26, paragraph 1, of Legislative Decree No. 87/92
6 = centralized management as per Article 26, paragraph 2, of Legislative Decree No. 87/92

(2) Voting rights in the ordinary shareholders' meetings, distinguishing between actual and potential voting rights.

The Magellan Group was acquired on May 31, 2016 and is controlled exclusively by BFF.

The accounting standard for business combinations is IFRS 3.
The transfer of the control of a business (or an integrated set of assets and activities, conducted and managed to provide a return, lower costs or other economic benefits directly to investors constitutes a business combination transaction.
In accordance with IFRS 3, each business combination requires the identification of the acquirer as the entity which acquired control over another business entity or group of assets.
The acquisition, and therefore the first-time consolidation of the acquired entity, is accounted for on the date in which the acquirer obtains effective control of the company or the assets acquired. When the acquisition occurs through a single exchange transaction, the exchange date generally coincides with the acquisition date. However, it is always necessary to verify the existence of any agreements between the parties which could involve a transfer of control before the exchange date.
The consideration transferred in a business combination is measured as the sum of the fair value, at the exchange date, of the assets sold, the liabilities incurred or assumed and the equity instruments issued by the acquirer in exchange for control.
The costs related to the acquisition are the expenses incurred by the acquirer to achieve the business combination. The costs related to the acquisition are recorded in the income statement in the period in which such costs were incurred and the services were received, except for the costs of any issue of equity shares or debt securities, which must be recognized in accordance with IAS 32 and IAS 39.
Business combinations are accounted for by applying the acquisition method. Under this method the identifiable assets acquired (including any intangible assets not previously recognized by the acquired company) and the identifiable liabilities assumed (including contingent liabilities) must be recognized at acquisition-date fair value.
The accounting for a business combination can be made for provisional amounts if the accounting is incomplete by the end of the reporting period in which the combination occurs but must be perfected within 12 months of the acquisition date.
On December 16, 2016, the merger of Mediona with and into Magellan was registered with the Lodz registry office, with the acquisition, by BFF, of 67,471 treasury shares held by Magellan for PLN 23 million, equal to €5.2 million, which increased the value of the investment by the same amount.

Whether mergers are formed by the creation of a new legal subject or with and into another already existing company they are treated according to the criteria described above. Specifically:
– if the transaction results in the transfer of the control of the company, it is treated as a business combination in accordance with IFRS 3;
– if the transaction does not result in the transfer of control, it is accounted for as an acquisition.

Section 4 – Subsequent events after December 31, 2016

No other facts or events that would require a restatement of the results in the financial statements at December 31, 2016 occurred since the close of the reporting year.

Section 5 – Other issues

Use of estimates and assumptions in the preparation of the Consolidated Financial Statements
In accordance with the IFRSs, the development of estimates by management is a prerequisite for the preparation of the Consolidated Financial Statements at December 31, 2016. This process involves the use of available information and the adoption of subjective judgments, also based on historical experience, in order to formulate reasonable assumptions for the recognition of operating events. These estimates and assumptions may vary from one year to the next and, consequently, the possibility cannot be excluded that, in subsequent years, the actual results reported in the financial statements may be significantly different, owing to changes in the subjective judgments utilized.
Estimates and assumptions are reviewed on a regular basis. Any changes resulting from such reviews are recognized in the period in which the review is carried out, provided the change refers only to that period. If the revisions refer both to current and future periods, the change is recognized both in the current and future periods accordingly.

The risk of uncertainty in estimates is essentially inherent in the measurement of:
- the degree of recoverability and estimated collection times for late-payment interest on receivables purchased on a non-recourse basis, to which the Bank is entitled, based on an analysis of historical company data;
- impairment losses on receivables and other financial assets in general;
- the fair value of financial instruments used for financial statement disclosure purposes;
- the fair value of financial instruments not traded on active markets determined with valuation models;
- expenses recorded on the basis of provisional values when the initial accounting for the business combination is incomplete;
- any impairment of equity investments and recorded goodwill;
- employee benefit provisions based on actuarial assumptions and provisions for risks and charges;
- the recoverability of deferred tax assets.

The description of the accounting policies adopted for the main aggregates of the Consolidated Financial Statements at December 31, 2016 provides the information needed to identify the major assumptions and subjective judgments used in preparing it.

Independent Audit
The Shareholders' Meeting of Farmafactoring S.p.A. held on May 3, 2012 awarded to PricewaterhouseCoopers S.p.A. the assignment to audit the financial statements for nine years, from 2012 to 2020, pursuant to the provisions of Article 2409-*bis* of the Italian Civil Code and Legislative Decree No. 39/2010.

A.2 – PART CONCERNING THE MAIN ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Information about the accounting principles adopted to prepare the Consolidated Financial Statements, with regard to the criteria for the recognition, classification, measurement and derecognition of the various assets and liabilities and the recognition of revenues and expenses, is provided below.

1 - Financial assets held for trading

Recognition criteria

Financial assets held for trading are initially recognized at their fair value on the settlement date, which usually corresponds to the consideration paid, excluding transaction costs and income, which are immediately recognized in profit or loss even if they are directly attributable to the financial assets. Trading derivatives are recognized as of the trade date.

Classification criteria

Financial assets held for trading include financial instruments executed to hedge interest rate risk, for which hedge accounting was not applied.
The financial instruments recorded in this category are derivative contracts executed to hedge fluctuations in the exchange rates between the forward exchange rate and the spot exchange rate.
Financial derivatives are recognized as assets/liabilities held for trading in accordance with the provisions of IAS 39, even though at the operational level they are treated as instruments hedging risks.
Specifically with regard to Magellan, in 2016, foreign exchange swap agreements were executed to hedge the principal and interest on the bonds issued by Magellan (to be repaid in euros), from the fair value changes arising from fluctuations in the euro-zloty exchange rate.

Measurement criteria

Financial assets held for trading are adjusted to the corresponding fair value.
If the fair value of a financial asset becomes negative, it is recognized as a financial liability.
Since a price quoted in an active market is not available for these instruments, their fair value is determined using estimating methods and valuation models that take into account all of the risk factors related to the instruments and are based on observable market data, when available.
Therefore, considering that the inputs used to measure financial assets held for trading are different from quoted prices but are observable directly or indirectly in the market, in accordance with Bank of Italy Circular No. 262, the fair value valuation hierarchy is "Level 2".

Derecognition criteria

Financial assets held for trading are derecognized upon the expiration of the contractual rights and when, as a result of the sale, substantially all of the risks and benefits relating to the financial assets are transferred.

2 - Available-for-sale financial assets

Recognition criteria

Available-for-sale financial assets are initially recognized at their fair value on the settlement date, which usually corresponds to the consideration paid, including transaction costs and income directly attributable to the instrument.

Classification criteria

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity financial assets or financial assets measured at fair value.

These assets are held for an indefinite period and can fulfill the need to access liquidity or respond to fluctuations in interest rates, exchange rates or prices.
Money market securities, other debt instruments (including the host contract of hybrid instruments after the bifurcation of the embedded derivative) and equity securities can be classified as available-for-sale financial investments. Shares held as minority investments that do not constitute controlling interests, joint control or associate interests can also be included in this category.
The main components of the instruments classified in the available-for-sale category include government securities and the investment in Nomisma S.p.A., since this company is not subject to significant influence.

Measurement criteria
With regard to debt securities, these assets are subsequently measured at fair value, with the interest recognized at amortized cost in the income statement. Gains and losses arising from changes in fair value are recognized in equity under item 140 "Revaluation reserves" - except for impairment losses and exchange rate gains or losses on monetary items (debt securities), which are recognized under item 130 b) "Net losses on/recoveries on impairment of available-for-sale financial assets" and item 80 "Gains (losses) on financial assets and liabilities held for trading," respectively, until the financial asset is sold, at which time the cumulative gains and losses are recognized in the income statement under item 100 b) "Gains (losses) on disposal and repurchase of available-for-sale financial assets."
Fair value changes recognized under item 140 "Revaluation reserves" are also reported in the statement of comprehensive income.
Equity instruments (shares) not traded in an active market, the fair value of which cannot be determined reliably due to the lack or unreliability of the information needed for fair value measurement, are measured at cost, which corresponds to their last reliably measured fair value.
For debt instruments, any circumstances indicating that the borrower or issuer is experiencing financial difficulties, such as to prejudice the collection of the principal or interest, constitute evidence of an impairment loss.
If there is objective evidence of an impairment of an available-for-sale financial asset, the cumulative loss that was recognized directly in equity under item 140 "Revaluation reserves" is transferred to the income statement under item 130 b) "Net losses on/recoveries on impairment of available-for-sale financial assets". The amount transferred to the income statement is equal to the difference between the asset's carrying amount (value at initial recognition net of any previous impairment losses already recognized in the income statement) and its current fair value.
If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively correlated with an event such as an improvement in the debtor's creditworthiness occurring in a period following the period when the impairment loss was recognized in the income statement, the impairment loss is reversed and the amount of the reversal is recognized in the same income statement item. However, this cannot be applied to equity securities.
The reinstatement cannot result in a carrying amount that exceeds what the amortized cost would have been had the impairment loss not been recognized.

Derecognition criteria
Available-for-sale financial assets are derecognized when the contractual rights expire and when, following a sale, substantially all of the risks and benefits relating to the financial asset are transferred.

3 - Held-to-maturity financial assets

Recognition criteria

Held-to-maturity financial assets are initially recognized at fair value, which usually corresponds to the consideration paid, including transaction costs and income directly attributable to the acquisition or provision of the financial asset.

Classification criteria

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity for which there is a demonstrable intention and ability to hold them to maturity. This type of instruments can be used for reverse repos, loans or other temporary refinancing transactions.

Pursuant to IAS 39, a financial asset cannot be classified as held-to-maturity if, during the current year held-to-maturity investments representing a material amount are sold or reclassified before maturity.

Measurement criteria

After initial recognition at fair value, these assets are measured at amortized cost using the effective interest method.

In the event of a sale/derecognition, the difference between the carrying amount of the asset and the proceeds collected is recognized in the income statement under item 100 c) "Gains (losses) on disposal and repurchase of held-to-maturity financial assets".

If there is objective evidence that an asset is impaired, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted using the original effective interest rate of the financial asset. The carrying amount of the asset is reduced accordingly and the loss is recognized in profit or loss under item 130 c) "Net losses on/recoveries on impairment of held-to-maturity financial assets".

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be objectively correlated with an event such as an improvement in the debtor's creditworthiness occurring after recognition of the impairment loss, the previously recognized impairment loss is reversed. The reinstatement cannot result in a carrying amount that exceeds what the amortized cost would have been had the impairment loss not been recognized. The amount of the reinstatement is recognized in the same item of the income statement.

Investments included in this category may be hedged only for the credit risk.

Derecognition criteria

Held-to-maturity financial assets are derecognized when the contractual rights expire and when, following a disposal, substantially all of the risks and benefits relating to the financial asset are transferred. If, during the year, held-to-maturity investments representing a material amount are sold or reclassified before maturity, the remaining held-to-maturity financial assets shall be reclassified as available-for-sale and no financial assets shall be classified as held-to-maturity investments for the two following years, unless the sales or reclassifications:

• are so close to the financial asset's maturity or call date that changes in the market interest rate would not have a material impact on the financial asset's fair value;

• occur after substantially all of the financial asset's original principal has been collected through scheduled payments or prepayments; or

• are attributable to an isolated event that is beyond the reporting entity's control, is non-recurring and could not have been reasonably anticipated.

4 - Receivables

Recognition criteria

Receivables include loans with customers and banks either made directly or acquired from third parties, with fixed or determinable payments.
Receivables are recognized initially at fair value, which usually corresponds to the consideration paid plus transaction costs and income which are directly attributable to the acquisition or provision of the financial asset, even though not yet settled.

Non-recourse receivables:
a) purchased on a non-recourse basis, with the transfer of substantially all risks and benefits, are initially recognized at fair value, represented by the face value of the receivable net of fees and commissions charged to the assignor;
b) purchased for amounts below face value are recognized for the amount actually paid at the time of purchase.

Receivables include finance lease transactions, meaning contracts that transfer all the risks and rewards of ownership of the asset to the lessee. At the end of the contract, the title to the asset is not necessarily transferred to the lessee.

Classification criteria

The amounts due from banks mainly refer to current account transactions generated by liquidity from amounts collected in the closing days of the year, pending clearance, relating both to "receivables management" and "management of receivables purchased on a non-recourse basis".
Receivables due from customers are primarily comprised of receivables from debtors relating to factoring activities and late-payment interest, computed on receivables purchased on a non-recourse basis, determined in accordance with existing laws (Legislative Decree No. 231/2002 "Implementation of Directive No. 2000/35/EC on combating late payments in commercial transactions").
All purchases of non-recourse receivables refer to factoring transactions executed pursuant to Law No. 52/91.

This item also includes the value of credit disbursed, that is, the assets used under finance lease contracts, even though the legal title remains with the lessor, net of the principal portion of the lease installments due and paid by the lessee.

Measurement criteria

After initial recognition, receivables are measured at amortized cost, equal to the original amount, less repayment of principal and impairment losses, and increased by any reinstatement of value and amortization, calculated using the effective interest method, of the difference between the amount disbursed and repayable when due, including ancillary costs/income recorded directly against the individual receivable.
For short-term receivables and revocable loans, amortized cost is not conventionally adopted, owing to the minor effects arising from the application of this method.
Receivables purchased on a non-recourse basis specifically with reference to the factoring activities carried out by the group companies, are measured at amortized cost, determined based on the present value of estimated future cash flows, both with reference to the principal amount and the late-payment interest that accrue from the due date of the receivable.

The new maturity date of such receivables is their expected collection date determined at the time of pricing and finalized with the assignor in the sales contract.

Pursuant to IAS 18, interest income (including late-payment interest) should be recognized in the income statement only if it is probable that positive cash flows will be generated for the entity and their amount can be measured reliably. In the case in question, consistently with what was confirmed in the "Bank of Italy/Consob/Ivass Document No. 7 of November 9, 2016" discussing the "Treatment in financial statements of late-payment interest under Legislative Decree No. 231/2002 on non-impaired non-recourse purchases of receivables", the Group also included the estimate of late-payment interest in the calculation of amortized cost, taking into account that:

• the Group's business model and organizational structure envisage that the systematic recovery of late-payment interest on non-impaired receivables purchased on a non-recourse basis represents a structural element of the ordinary business activities for the management of such receivables;

• such late-payment interest, due to the effect on the composition of the Group's results, does not constitute an auxiliary element of non-recourse purchase transactions and has been considered for a complete analysis of the prospective profitability profiles.

The Group also has a time series of data concerning the collection percentages and times of collection of late-payment interest, acquired through analysis tools, enabling it to judge that the estimate of late-payment interest included in the calculation of amortized cost is sufficiently reliable and such as to satisfy the recognition requirements established by IAS 18. Such time series of data are updated on an annual basis when the financial statements are prepared, in order to determine the collection percentages and time of collection to be used to calculate late-payment interest. The change in collections is then analyzed on a quarterly basis to confirm such percentages in periodic reporting.

With regard to the receivables of the parent Banca Farmafactoring and the subsidiary Farmafactoring España, the times series of data that was updated with the 2016 late-payment interest collections resulted in an average collection percentage for the year of more than 40%. This percentage was used for the preparation of the 2014 and 2015 financial statements and has also been confirmed for use for the financial statements for the year ended December 31, 2016.

Magellan, a group acquired in 2016, recognizes late-payment interest accrued on overdue trade receivables when there is reasonable certainty that the interest will be collected, on the basis of agreements reached with the debtor counterparties or when decided by a court of law.

Notwithstanding the minor significance of late-payment interest to the total of Magellan receivables, as part of the activities to complete the integration of the Group's processes, which also includes synchronizing the time series of data and the analysis instruments with those used by Banca Farmafactoring, the Group adopted the estimation criteria decided locally by management when Magellan was listed. These confirm a substantially integral recovery of late-payment interest recognized in the income statement, net of discounts and/or rounding offs of a maximum of 3% granted to the debtors.

Performing receivables include receivables due from customers which, while more than 90 days past due from the face due date, show no objective indication of impairment at an individual level.

Although the receivables are owed almost entirely by the Public Administration, as in previous years, when preparing its annual financial statements or interim reports, the Group, as required by IAS 39, carries out a collective assessment (impairment test) of its performing receivables in order to correctly monitor the intrinsic risk of the portfolio even in the absence of individual impairment indicators.

This assessment is performed using, as a basis, the risk parameters of Probability of Default (PD) and Loss Given Default (LGD) and applying them to the exposures not classified as non-performing (EAD).

The assessment of the "Probability of Default" (PD) was performed by assigning to the debtors (ASLs/AOs) a rating corresponding to the credit rating assigned by the major rating agencies to the particular Region to which the debtors belong.
To determine the "Loss Given Default" (LGD), the Group used the value recommended in the "Basel Accord Framework" for non-collateralized receivables owed by sovereign states, companies and banks, equal to 45%.
Magellan and its subsidiaries applied the provisions of IAS 39 even before the acquisition by Banca Farmafactoring, performing a collective assessment. However, the composition of Magellan's portfolio is different from Banca Farmafactoring's portfolio mainly because the most important exposures are with private debtors. Consequently, the assessment of receivables is made by applying a percentage to the receivable's purchase value that varies in relation to the type of counterparty to which the exposure refers.
As required by IAS 39, the Bank assesses the financial assets classified under receivables to identify any objective impairment of individual positions that require an analytical assessment.
Such "non-performing" receivables, which were assigned an impaired, doubtful or restructured status in accordance with existing prudential regulations, consistent with the IAS standards currently in effect, are measured at their estimated realizable value by recognizing any impairment losses determined on an individual basis, equal to the difference between the carrying amount of the receivable at the time of measurement (amortized cost) and the present value of estimated future cash flows, calculated by applying the original effective interest rate. The estimated future cash flows take into account:
• estimated recovery time;
• estimated realizable value of any guarantees;
• costs that it is believed will be incurred to recover the receivable;
• any reinstatements.
Magellan assesses whether to record individual impairments by analyzing the profit and financial situation of the debtor and the actual possibility of recovering the receivable. A specific analysis is therefore carried out based on quantitative indicators (for example, profitability and liquidity indexes) and qualitative indicators (for example, market, client or supplier dependence) or ratings by recognized rating agencies.
Cash flows from receivables that are expected to be recovered over the short term (within 12 months – short-term receivables) are not discounted to present value.
A receivable that was written down is subsequently reinstated to its amortized cost when the reasons for the impairment no longer exist.

Derecognition criteria
Receivables are derecognized when they are considered uncollectible.
Receivables sold are derecognized only if the sale transferred all of the risks and benefit relating to such receivables.
On the other hand, if the risks and benefits are retained, the receivables sold will continue to be recorded on the asset side of the financial statements until, legally, title to the receivables is effectively transferred.

5 - Financial assets designated at fair value

Recognition criteria

Upon initial recognition financial assets are recognized at fair value, based on the amount paid, without considering any transaction costs or income that are directly attributable to the instrument itself, through profit or loss.

Classification criteria

The IAS/IFRS endorsed by the European Commission allow the classification in such category, with a counter-entry to profit or loss, of any financial asset defined as such at acquisition, for the cases envisaged by the regulations of reference and not held for trading.
Reclassification to other financial assets categories is not allowed.

Measurement criteria

Subsequent to initial recognition, these assets are measured at fair value with the impacts of the application of such criteria recognized in the income statement.

Derecognition criteria

Financial assets designated at fair value are derecognized when the contractual rights to cash flows expire or when the financial assets are transferred with the transfer of substantially all the risks and rewards deriving from the ownership of the assets. The result of the transfer of financial assets designated at fair value is recorded in item 110 of the income statement "Gains (losses) on disposals and repurchases of available-for-sale financial assets".

6 - Hedging derivatives

Recognition criteria

Derivative financial instruments designated as hedges are initially recognized at their fair value.

Classification criteria

Hedging transactions are designed to neutralize potential losses attributable to specific types of risks.

The possible types of hedges are the following:
• fair value hedges, which hedge the exposure to changes in the fair value of financial statement items;
• cash flow hedges, which hedge of the exposure to fluctuations in future cash flows attributable to specific financials statement items.

Instruments that can be used for hedging purposes include derivatives (including purchased options) and non-derivative financial instruments, exclusively to hedge foreign exchange risk. Hedging derivatives are classified in the statement of financial position under item 80 "Hedging derivatives" among assets or item 60 "Hedging derivatives" among liabilities, respectively, according to whether their fair value is positive or negative on the reporting date.

At December 31, 2016, the Bank has the following types of hedges:
• cash flow hedge: interest rate swap contract with a notional amount in Polish currency (zloty) executed to hedge a variable rate medium-term loan obtained in 2016 in Polish currency from changes in future cash flows arising from fluctuations in market interest rates (Wibor). Instead, the risk component of the loan attributable to changes in the euro-zloty exchange rate is not hedged.
• fair value hedge: foreign exchange swap contracts executed to hedge intragroup loans (between Banca Farmafactoring and Magellan), entered into in 2016 in Polish currency (zloty) and in Czech currency (koruna), from changes in fair value arising from fluctuations in the euro-zloty and euro-koruna exchange rates.
Pursuant to IAS 39, paragraph 80, these transactions in derivatives referring to intragroup loans are recognized in both the separate financial statements of the Bank and in the consolidated financial statements of the Group, due to the fact that all the changes in the value of the loans arising from euro-zloty and euro-koruna exchange rate fluctuations, recognized in the income statement of the separate financial statements of the Bank, also remain in the consolidated financial statements of the Group, even after the elimination on consolidation of intragroup transactions that are hedged.

Measurement criteria
Derivative hedging instruments are recognized and measured at their fair value.
When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and the hedged item. Consequently, the Group verifies the hedging instrument's effectiveness, both at inception and during its life, in offsetting the exposure to changes in the hedged item's fair value or cash flows. A hedge is considered effective if, both at inception and during its life, the changes in the hedged item's fair value or cash flows are offset by the changes in the hedging derivative's fair value.
Consequently, the hedge's effectiveness is assessed by a comparison of the above changes, taking into account the objective pursued by the entity when the hedge was put into place. It is effective (within a range of 80-125%) when the estimated and effective changes in the fair value or cash flows of the hedging instrument offset almost entirely the changes in the hedged item, for the element of risk hedged. The hedge's effectiveness is assessed each year at the closing of the annual financial statements or the interim financial reports using:
• prospective tests, which justify the application of hedge accounting, since they confirm the hedge's expected effectiveness;
• retrospective tests, which indicate the degree of effectiveness of the hedge achieved in the period to which they refer. In other words, they measure to what extent actual results diverged from those of a perfect hedge.
Gains and losses arising from fair value changes are accounted for differently depending on the type of hedge:
• fair value hedge: changes in the fair value of the hedged item attributable exclusively to the hedged risk are recognized in profit or loss, the same as the fair value change of the derivative; any difference, which represents the partial ineffectiveness of the hedge, consequently corresponds to the net gain or loss;
• cash flow hedge: changes in the fair value of the derivative are recognized in equity, for the effective portion of the hedge, and are recognized in profit or loss only when, with regard to the hedged item, there is a fluctuation in the cash flows that needs to be offset or the hedge is ineffective.

The allocation of gains or losses to the pertinent items of the income statement is made in accordance with the following guidelines:

• differences accrued on the derivative instruments hedging interest rate risk (in addition to the interest of the hedged positions) are allocated to "Interest and similar income" or "Interest and similar expenses";
• gains and losses arising from the measurement of hedging derivatives designated as a fair value hedge and the hedged positions are allocated to the item "Fair value adjustments in hedge accounting";
• gains and losses arising from the measurement of derivatives designated as a cash flow hedge, for the effective portion, are allocated to a special equity revaluation reserve called "Cash flow hedge reserve", net of the deferred tax effect. For the ineffective portion, the gains and losses are recorded in the income statement item "Fair value adjustments in hedge accounting".

Derecognition criteria

Hedge accounting is discontinued in the following cases: a) the hedging relationship ceases or is no longer highly effective; b) the hedged item is sold or is repaid; c) early revocation of the designation; d) the hedging instrument expires or is sold, terminated or exercised.
If the hedge is not effective, the portion of the derivative contract no longer hedged (over hedging) is reclassified to trading instruments. If the interruption in the hedging relationship is due to the sale or termination of the hedging instrument, the hedged item ceases to be hedged and is again measured in the portfolio to which it belongs.
The hedging financial assets and liabilities are eliminated when there are no longer any contractual rights (e.g., expiration of the contract, early closing exercised according to the contractual clauses – unwinding) to receive cash flows from the hedged financial instruments, assets/liabilities and/or the derivative designated as a hedge or when the financial assets/liabilities are sold thus substantially transferring all the risks and benefits connected thereto.

8 - Property, plant and equipment

Recognition criteria

Property, plant and equipment is recognized initially at cost, including all directly attributable costs to bring the asset into use (transaction costs, professional fees, direct transportation costs incurred to bring the asset to the assigned location, installation costs, dismantling costs).
Costs incurred subsequently are added to the asset's carrying amount or recognized as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be reliably measured. Other expenses incurred subsequently (e.g., ordinary maintenance costs) are recognized in the year incurred in the income statement under item 180 b) "Other administrative expenses," if they refer to assets used in the Group's business activities.
This item also includes assets used as the lessor in finance lease agreements, that is, those contracted as the lessor in operating lease agreements.

Classification criteria

Property, plant and equipment includes movable property and industrial buildings, plant and other machinery and equipment held for use by the Group, for more than one period.

Measurement criteria

Subsequent to initial recognition, property, plant and equipment is carried at cost, net of accumulated depreciation and impairment losses.

With regard to the Group, such assets are depreciated on a straight-line basis over their estimated useful lives, estimated as follows:
• buildings: maximum 34 years;
• furniture: maximum 9 years;
• plant: maximum 14 years;
• office machines: maximum 3 years;
• other: maximum 11 years.

Land and buildings are treated separately for accounting purposes, even if purchased together. Land is not depreciated since, as a rule, it has an indefinite useful life.
The estimated useful life of property, plant and equipment is reviewed at the end of each reporting period, taking into account the conditions of use of the assets, maintenance conditions, expected obsolescence etc. and, if expectations differ from previous estimates, the depreciation expense for the current and subsequent years is adjusted.
At the date of IFRS first-time adoption (January 1, 2005), the Group-owned buildings used by the Group in its business activities (Milan and Rome) were measured at fair value, which became the new carrying amount of the assets as of that date.

If there is objective evidence that an individual asset has been impaired, the asset's carrying amount is compared with its recoverable amount, equal to the higher of its fair value, less costs to sell, and its value in use, i.e., the present value of future cash flows expected to originate from the asset. Any adjustments to the value of the asset are recognized in the income statement under item 200 "Impairment/write-backs on property, plant and equipment".
If the value of a previously impaired asset is reinstated, the new carrying amount cannot exceed the net carrying amount that would have been attributed to the asset if no impairment loss had been recognized in prior years.

Derecognition criteria
A tangible asset is derecognized upon its disposal or when no further future economic benefits are expected from its use or sale and any difference between the sale proceeds or the recoverable amount and the carrying amount is recognized in the income statement under item 270 "Gains (losses) on disposal of investments".

9 - Intangible assets

Recognition criteria
Intangible assets are recognized at acquisition cost, including direct costs incurred to bring the asset into use, less any accumulated amortization and impairment losses.

Intangible assets also include goodwill, being the positive difference between the purchase cost and the fair value of the assets and liabilities of the acquired company. As for the separate financial statements, the value of the business combination was calculated provisionally. In accordance with the provisions of IFRS 3, the purchase price allocation (PPA) will be concluded within 12 months of the acquisition date (June 2017) in order to complete the initial accounting of the acquisition of Magellan.

Classification criteria
Intangible assets are identifiable non-monetary assets without physical substance that are expected to be used for more than one year, controlled by the Group and from which future economic benefits are likely to flow.

Intangible assets consist mainly of software and goodwill.

Measurement criteria
Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful lives, for the entire banking Group, usually as follows:

software:	maximum 4 years;
other intangible assets:	maximum 6 years.

If there is objective evidence that an individual asset has been impaired, the asset's carrying amount is compared with its recoverable amount, equal to the higher of its fair value, less costs to sell, and its value in use, i.e., the present value of future cash flows expected to originate from the asset. Any adjustments to the value of the asset are recognized in the income statement under item 210 "Impairment/write-backs on intangible assets."
If the value of a previously impaired asset is reinstated, the new carrying amount cannot exceed the net carrying amount that would have been attributed to the asset if no impairment loss been recognized in prior years.

Intangible assets include goodwill. Goodwill can be recognized, in a business combination, when the positive difference between the consideration transferred and any recognition at fair value of non-controlling interests and the fair value of the balance sheet items is representative of the investment's capability to produce future profit (goodwill).

Assets with an indefinite life such as goodwill are not amortized but are tested for impairment annually or more frequently whenever there are indications that it might be impaired.
When there is an impairment, the carrying amount is reduced to its recoverable amount which is the higher of the fair value of the cash-generating unit, less costs to sell and its value in use, which is the fair value of estimated future cash flows of a cash-generating unit discounted to present value. The recognition of any reversal of an impairment loss is not allowed.

Derecognition criteria
An intangible asset is derecognized upon its disposal or when no further future economic benefits are expected from its use or sale in the future and any difference between the sale proceeds or recoverable amount and the carrying amount is recognized in the income statement under item 270 "Gains/losses on disposal of investments".

11 - Current and deferred taxes

Recognition and measurement criteria
Income taxes are computed in accordance with enacted tax legislation.
The tax charge consists of the total amount of current and deferred income taxes included in arriving at the result for the period.

Current income taxes correspond to the amount of income taxes due on the taxable income for the year.
Deferred tax liabilities correspond to the amount of income taxes due in future years on taxable temporary differences. Deferred tax assets correspond to the amount of income taxes recoverable in future years and refer to deductible temporary differences.
The tax amount of an asset or a liability is the value attributed to that asset or liability according to enacted tax legislation.
A deferred tax liability is recognized on all taxable temporary differences in accordance with IAS 12.
A deferred tax asset is recognized on all deductible temporary differences, in accordance with IAS 12, only to the extent that it is probable that there will be future taxable income against which the deductible temporary difference can be offset.
Deferred tax assets and liabilities are calculated based on enacted tax rates in the year in which the asset will be recovered or the liability will be extinguished.
Current and deferred taxes are recognized in the income statement.

12 - Provisions for risks and charges

Recognition and measurement criteria
Provisions for risks and charges cover costs and expenses of a determinate nature, the existence of which is certain or probable, which, at the end of the reporting period are uncertain as to amount or date when they will arise.
Accruals to the provisions for risks and charges are recognized only when:
• there is a present obligation as a result of a past event;
• upon its manifestation, the obligation is onerous;
• the amount of the obligation can be estimated reliably.
As required by IAS 19, the provisions for risks and charges include the measurement of post-employment benefit obligations.
The measurement of such obligations in the balance sheet is made, based on actuarial calculations when necessary, by determining the charge at the measurement date based on demographic and financial assumptions.

Derecognition criteria
Derecognition occurs when the obligation or contingent liability that generated the recognition of a provision is extinguished.

13 - Payables and debt securities issued

Recognition criteria
Payables and debt securities issued are recognized on the settlement date initially at fair value, which normally corresponds to the consideration received less transaction costs directly attributable to the financial liability.

Classification criteria
Financial instruments (other than trading liabilities and those measured at fair value) representing the different forms of third-party funding are allocated to the items "Due to banks", "Due to customers" and "Debt securities issued".

Measurement criteria

The amounts due to banks and customers are measured at their face value since they are generally liabilities due within 18 months and in consideration of the fact that the effect of applying the amortized cost method would be negligible.

Debt securities issued are measured at amortized cost using the effective interest method.

Derecognition criteria

Financial liabilities are derecognized when the obligation specified in the contract is extinguished or following a substantial change in the contractual terms of the liability.

The derecognition of debt securities issued occurs also in the event of the repurchase of securities previously issued, even if they are destined for subsequent resale. The gains and losses on the recognition of the repurchase as an extinguishment are recognized in the income statement when the repurchase price of the bonds is higher or lower than their carrying amount. Subsequent disposals of own bonds on the market is treated as the placement of new debt.

18 - Other information

Employee severance indemnities

Recognition and measurement criteria

As a result of the new legislative framework introduced by Law No. 296 of 2006, the computation of employee severance benefits vested up to December 31, 2006 (which remains with the Company) is computed by estimating the remaining length of the employment relationship, for individual persons or homogeneous groups, based on demographic assumptions:

• by projecting the vested employee severance benefits, using demographic assumptions to estimate the time of termination of the employment relationship;

• by discounting to present value, at the measurement date, the amount of the vested benefits at December 31, 2006, based on financial assumptions.

IAS 19 revised no longer allows the deferral of actuarial gains and losses under the corridor method, now requiring their immediate recognition in comprehensive income for the year to which they are attributable.

Because the employee severance benefits that will vest starting on January 1, 2007 must be transferred to the Italian social security administration (INPS) or to supplemental pension funds, they qualify as a "defined contribution plan" since the employer's obligation ceases once payment is made and the contribution is recorded in the income statement on the accrual basis.

Share-based payment agreements with BFF employees

At the reporting date, BFF granted an award, through a bonus increase in share capital, that is one-time and not linked to performance targets, of special shares to each of the employees of the Group to motivate them, reward their loyalty and strengthen their sense of belonging to the Group, and align their interests with those of the shareholders through a Stock Grant Plan. The bonus award of the special shares was made by charging the capital reserves with the same accounting value as the ordinary shares of BFF.

Lastly, it should be noted that on December 5, 2016, the BFF Extraordinary Shareholders' Meeting approved the stock option plan for employees and members of the corporate boards, in the event

of the Bank's listing, which has already been submitted for examination by the Bank of Italy pursuant to paragraph 1.2, Section III, Chapter 2 of the Bank of Italy Circular No. 285.
The option rights relating to the above stock option plan had not yet been awarded as of the date of the approval of the financial statements.

Revenue recognition criterion

The general criterion for the recognition of revenue components is the accrual basis. More specifically:

• fees and commissions charged to the assignor for the purchase of non-recourse receivables are recognized as transaction revenues and are therefore part of the effective return on the receivable.

• pursuant to IAS 18, interest income (including late-payment interest) should be recognized in the income statement only if it is probable that positive cash flows will be generated for the entity and their amount can be measured reliably. In the case in question, consistently with what was confirmed in the "Bank of Italy/Consob/Ivass Document No. 7 of November 9, 2016" discussing the "Treatment in financial statements of late-payment interest under Legislative Decree No. 231/2002 on non-impaired non-recourse purchases of receivables", the Group also included the estimate of late-payment interest in the calculation of amortized cost.

The Group also has a time series of data concerning the collection percentages and times of collection of late-payment interest, acquired through analysis tools, enabling it to judge that the estimate of late-payment interest included in the calculation of amortized cost is sufficiently reliable and such as to satisfy the recognition requirements established by IAS 18. Such time series of data are updated on an annual basis when the financial statements are prepared, in order to determine the collection percentages and time of collection to be used to calculate late-payment interest. The change in collections is then analyzed on a quarterly basis to confirm such percentages in periodic reporting.

With regard to the receivables of the parent Banca Farmafactoring and the subsidiary Farmafactoring España, the times series of data that was updated with the 2016 late-payment interest collections resulted in an average collection percentage for the year of more than 40%. This percentage was used for the preparation of the 2014 and 2015 financial statements and has also been confirmed for use for the financial statements for the year ended December 31, 2016.

Magellan, a group acquired in 2016, recognizes late-payment interest accrued on overdue trade receivables when there is reasonable certainty that the interest will be collected, on the basis of agreements reached with the debtor counterparties or when decided by a court of law.
Notwithstanding the minor significance of late-payment interest to the total of Magellan receivables, as part of the activities to complete the integration of the Group's processes, which also includes synchronizing the time series of data and the analysis instruments with those used by Banca Farmafactoring, the Group adopted the estimation criteria decided locally by management when Magellan was listed. These confirm a substantially integral recovery of late-payment interest recognized in the income statement, net of discounts and/or rounding offs of a maximum of 3% granted to the debtors.

• interest income on securities classified in the available-for-sale and held-to-maturity portfolios and interest expense on securities issued by the Group, are recognized at amortized cost, i.e., by applying to the face value of the securities the effective interest rate of return (IRR), determined as the difference between the coupon rate of interest and the purchase price of the same security and taking into account any issue discount. The interest thus computed is recognized in the income statement pro-rated over the duration of the financial asset or liability.

• fees and commissions for receivables managed on behalf of assignors are recognized in two successive steps in relation to the timing and nature of the service rendered:
  - when the receivables are entrusted for management (fees and commissions on acceptance and handling expenses);
  - when the receivables are collected (collection fees and commissions).

A.3 - INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

In 2016, as in 2015, there were no reclassifications of financial assets between portfolios.

A.4 – FAIR VALUE DISCLOSURE

Qualitative information

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

Financial assets/liabilities held for trading, available-for-sale (investment in the FITD Voluntary Scheme) and hedging derivatives, recognized at December 31, 2016, are classified as Level 2, as the measurements were made using inputs other than the quoted prices used in Level 1 and observable directly or indirectly for the assets and liabilities.
The amount classified as Level 3 represents the value of the certificates purchased by Magellan in an investment fund which invests in the receivables of Polish public hospitals and, without observable evaluations, the value is approximate to the cost.

A.4.2 Valuation processes and sensitivities

These financial instruments are used to hedge fluctuations in market rates and exchange rates connected with the financial assets and liabilities recorded in the financial statements.
At December 31, 2016, the amount recognized corresponds to the fair value of the instrument. The fair value change in such financial assets/liabilities compared to December 31, 2015 required the recognition in the income statement of a net gain/loss (+/-) on financial assets and liabilities held for trading.

A.4.3 Fair value hierarchy

In 2016, as in 2015, there were no transfers between Level 1, Level 2 and Level 3.

Quantitative information
All amounts are stated in thousands of euros.

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 levels

(in € thousands)

Financial assets measured at fair value	12/31/2016			12/31//2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading		244				
2. Financial assets designated at fair value			3,401			
3. Available-for-sale financial assets	385,086	177	17	429,414		23
4. Hedging derivatives		529				
5. Property, plant and equipment						
6. Intangible assets						
Total	**385,086**	**950**	**3,418**	**429,414**		**23**
1. Financial liabilities held for trading		7				
2. Financial liabilities designated at fair value						
3. Hedging derivatives		176				
Total		**183**				

A.4.5.2 Year-over-year changes in assets measured at fair value (Level 3)

(in € thousands)

	Financial assets held for trading	Financial assets designated at fair value	Available-for-sale financial assets	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Beginning balance			23			
2. Increases						
2.1 Purchases						
2.2 Profit recognized in:						
2.2.1 Income statement - Gains						
2.2.2 Equity						
2.3 Transfers from other levels						
2.4 Other increases		3,401				
3. Decreases						
3.1 Sales						
3.2 Redemptions						
3.3 Losses recognized in:						
3.3.1 Income statement - Losses						
3.3.2 Equity			6			
3.4 Transfers to other levels						
3.5 Other decreases						
4. Ending balance		3,401	17			

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

(in € thousands)

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	12/31/2016				12/31/2015			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Held-to-maturity financial assets	1,629,320	1,632,899			822,859	826,912		
2. Due from banks	144,871			144,871	60,523			60,523
3. Due from customers	2,499,094			2,499,094	1,962,004			1,962,004
4. Property, plant and equipment held for investment purposes								
5. Non-current assets and disposal groups of assets held for sale								
Total	**4,273,286**	**1,632,899**		**2,643,966**	**2,845,386**	**826,912**		**2,022,527**
1. Due to banks	635,629			635,629	688,081			688,081
2. Due to customers	2,996,142			2,996,142	1,726,683			1,726,683
3. Debt securities issued	634,283	447,578	180,944		452,962	302,277	150,000	
4. Liabilities associated with assets held for sale								
Total	**4,266,054**	**447,578**	**180,944**	**3,631,771**	**2,867,726**	**302,277**	**150,000**	**2,414,764**

Key:
CA = Carrying Amount
L1 = Level 1: quoted prices (without adjustments) recognized in active markets according to the definition of IFRS 13.
L2 = Level 2: inputs other than quoted market prices included within Level 1 that are observable directly (prices) or indirectly (derived from the prices) in the market.
L3 = Level 3: inputs that are not based on observable market data.

A.5 INFORMATION ON DAY ONE PROFIT/LOSS

The Group does not hold nor has it held financial assets to which this disclosure is applicable, pursuant to IFRS 7, paragraph 28.

Part B - Consolidated Balance Sheet

All amounts are stated in thousands of euros.

ASSETS

Section 1 – Cash and cash balances – Item 10

€149 thousand

1.1 Cash and cash balances: breakdown

(in € thousands)

	12/31/2016	12/31/2015
a) Cash	6	2
b) Unrestricted deposits with central banks	143	157
Total	**149**	**160**

The balance represents the cash on hand at the different Group companies and unrestricted deposits with the Bank of Italy, which amount to €143 thousand.

Section 2 – Financial assets held for trading - Item 20

€244 thousand

2.1 Financial assets held for trading: breakdown by type

(in € thousands)

Items/Amounts	Total 12/31/2016			Total 12/31/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Balance sheet assets						
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities						
3. Units in investment funds						
4. Loans						
4.1 Reverse repos						
4.2 Other						
Total A	**0**	**0**	**0**	**0**	**0**	**0**
B. Derivative instruments						
1. Financial derivatives						
1.1 Trading		244			0	
1.2 Related to fair value option						
1.3 Other						
2. Credit derivatives						
2.1 Trading						
2.2 Related to fair value option						
2.3 Other						
Total B	**0**	**244**	**0**	**0**	**0**	**0**
Total (A+B)	**0**	**244**	**0**	**0**	**0**	**0**

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

(in € thousands)

Items/Amounts	Total 12/31/2016	Total 12/31/2015
A. 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 public entities		
- Insurance companies		
- Financial companies		
- Non-financial companies		
- Other		
3. Units in investment funds		
4. Loans		
a) Governments and central banks		
b) Other public entities		
c) Banks		
d) Other subjects		
Total A	0	0
B. Derivative instruments		
a) Banks		
- fair value	244	0
b) Customers		
- fair value		
Total B	**244**	**0**
Total (A+B)	**244**	**0**

The financial instruments recorded in this category total €244 thousand. They refer to derivative contracts executed for the purpose of hedging the change in exchange rates through the forward sale of foreign currency at a spot rate. These financial derivative contracts are recognized as assets or liabilities held for trading pursuant to the provisions of IAS 39, even though at the operational level they are considered risk hedging instruments.
Specifically with regard to Magellan, foreign exchange swap agreements were executed to hedge the principal and interest on the bonds issued by Magellan (to be repaid in euros) from the fair value changes arising from fluctuations in the euro-zloty exchange rate.

Section 3 – Financial assets designated at fair value - Item 30

€3,401 thousand

3.1 Financial assets designated at fair value: breakdown by type

(in € thousands)

	12/31/2016			12/31/2015		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities						
3. Units in investment funds			3,401			
4. Loans						
4.1 Structured						
4.2 Other						
Total			**3,401**			
Cost						

The amount represents the value of the certificates purchased by Magellan in an investment fund which invests in the receivables of Polish public hospitals.

3.2 Financial assets designated at fair value: breakdown by debtor/issuer

(in € thousands)

Items/Amounts	12/31/2016	12/31/2015
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. Units in investment funds	**3,401**	
4. Loans		
a) Governments and Central Banks		
b) Other public entities		
c) Banks		
d) Other subjects		
Total	**3,401**	

Section 4 – Available-for-sale financial assets - Item 40

€385,280 thousand

The balance mainly represents government securities purchased by Banca Farmafactoring to hedge liquidity risk and to optimize the cost of money, for a total face value of €375 million.
These securities earn interest at variable rates (CCT) and have residual maturity dates up to five years.

The securities are classified in the AFS portfolio and therefore measured at fair value. The interest earned is recorded in the income statement according to the effective rate of return.
At the end of the year the value of the securities is compared to their fair value and the fair value adjustment is recognized in equity under revaluation reserves.
At December 31, 2016, the fair value reserves on available-for-sale securities amount to about €471 thousand net of the tax effect.
During the year AFS securities were sold for a nominal amount of €554 million realizing a gain of €706 thousand, before the tax effect, recorded in the income statement in 100 b) "Gains (losses) on disposals and repurchases of available-for-sale financial assets".

In 2015, Banca Farmafactoring became a member of the Voluntary Scheme established by the FITD to implement interventions of support for the member banks that are in conditions of or at the risk of becoming insolvent.
In May 2016, Cassa di Risparmio di Cesena asked for the intervention of the Voluntary Scheme to increase share capital so that a solution to the bank's difficulties could be reached.
BFF's share was paid in September 2016 and amounted to €235 thousand. The relative fair value at December 31, 2016, communicated by FITD on January 20, 2017 was €177 thousand. The difference of €57 thousand was recorded in the income statement in item 130 b "Net losses/recoveries on impairment of available-for-sale financial assets".
In keeping with the instructions of the Bank of Italy in "Voluntary Scheme established by FITD. Questions" the amount was recorded in this item under equity securities measured at fair value.

The amount also includes €17 thousand held by BFF in Nomisma S.p.A. - Società di Studi Economici, accounted for at cost, in the absence of other valuation inputs.

The main information and data on the investment are as follows:

(in euros, unless otherwise stated)

Description	Carrying amount (€/cent)	No. of shares purchased	Nominal value per share (€/cents)	Percentage of investment holding
Nomisma S.p.A.	17,335.18	72,667	0.239	0.25%

Head office	Bologna - Strada Maggiore n. 44
Share capital	€6,963,500 fully paid-in

(in euros, at 12/31/2015)

Equity	7,177,384
Profit (loss) for the year	213,882

The difference in the carrying amount of the investment between the current and prior year of €7 thousand was recognized in the income statement in item 130 b "Net losses/recoveries on impairment of available-for-sale financial assets".

4.1 Available-for-sale financial assets: breakdown by type

(in € thousands)

	12/31/2016			12/31/2015		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities						
1.1 Structured securities						
1.2 Other	385,086			429,415		
2. Equity securities						
2.1 Measured at fair value		177				
2.2 Carried at cost			17			23
3. Units in investment funds						
4. Loans						
Total	**385,086**	**177**	**17**	**429,415**		**23**

4.2 Available-for-sale financial assets: breakdown by debtor/issuer

(in € thousands)

Items/Amounts	12/31/2016	12/31/2015
1. Debt securities		
a) Governments and Central Banks	385,086	429,415
b) Other public entities		
c) Banks		
d) Other issuers		
2. Equity securities		
a) Banks		
b) Other issuers:		
- insurance companies		
- financial companies		
- non-financial companies	17	23
- other	177	
3. Units in investment funds		
4. Loans		
a) Governments and Central Banks		
b) Other public entities		
c) Banks		
d) Other subjects		
Total	**385,280**	**429,438**

Section 5 – Held-to-maturity financial assets – Item 50
€1,629,320 thousand

The amount consists entirely of purchases of government securities, classified in the HTM portfolio, to hedge against liquidity risk and to optimize the cost of money, for a total face amount of €1,596.5 million.
These securities are at a fixed rate (BOT, BTP and CTZ) with maturity dates related to the sources of committed and unsecured funding. Such securities are therefore classified in the HTM portfolio and measured at amortized cost. The interest earned is recorded in the income statement according to the effective rate of return.

The HTM portfolio includes financial assets which BFF intends to hold until the maturity date set in the contract, for the collection of fixed and determinable amounts. In accordance with IAS 39, an entity may not classify any financial assets as held-to-maturity if, in the current year or in the preceding two financial years, the entity has sold or reclassified in the current year more than an insignificant amount of HMT investments before maturity.

The fair value of these securities at December 31, 2016 is €1,632,899 thousand, with a positive fair value change, compared to the carrying amount at the same date, of about €3.6 million, which is not recognized in the financial statements.

5.1 Held-to-maturity financial assets: breakdown by type

(in € thousands)

	Total 12/31/2016				Total 12/31/2015			
	CA	FV			CA	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities								
- structured								
- other	1,629,320	1,632,899			822,859	826,912		
2.Loans								

Key:
FV = fair value
CA = carrying amount

5.2 Held-to-maturity financial assets: debtor/issuer

(in € thousands)

Types of transactions/Amounts	Total 12/31/2016	Total 12/31/2015
1. Debt securities		
a) Governments and Central Banks	1,629,320	822,859
b) Other public entities		
c) Banks		
d) Other issuers		
2. Loans		
a) Governments and Central Banks		
b) Other public entities		
c) Banks		
d) Other subjects		
Total	**1,629,320**	**822,859**
Total	**1,632,899**	**826,912**

Section 6 – Due from banks – Item 60

€144,871 thousand

The receivables due from banks refer mainly to BFF for current account transactions generated by liquidity from amounts collected in the closing days of the year, pending clearance.

6.1 Due from banks: breakdown by type

(in € thousands)

Types of transactions/Amounts	Total 12/31/2016				Total 12/31/2015			
	CA	FV			CA	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from Central Banks								
1. Restricted deposits								
2. Mandatory reserve								
3. Reverse repos								
4. Other								
B. Due from banks								
1. Loans								
1.1 Current accounts and demand deposits	137,045			137,045	54,735			54,735
1.2. Restricted deposits	7,826			7,826	5,788			5,788
1.3. Other loans:								
- reverse repos								
- finance leases								
- other								
2. Debt securities								
2.1. Structured securities								
2.2. Other								
Total	**144,871**			**144,871**	**60,523**			**60,523**

Key:
FV = fair value
CA = carrying amount

The restricted deposits mainly include €5,174 thousand in the mandatory reserve deposit with ICBPI, as BFF is indirectly a participant in that system, and €1,652 thousand deposited in the *Fondo de Garantía de Depósitos* with Banco de España, for the deposit-taking activities through Cuenta Facto conducted by the Spanish branch of the BFF.

"Current accounts and demand deposits" include €6,417 thousand referring to Magellan.

There are no impaired assets in this item.

Section 7 – Due from customers – Item 70
€2,499,094 thousand

This item mainly includes receivables from debtors, including receivables for late-payment interest resulting from factoring transactions.

Non-recourse receivables purchased are measured at amortized cost based on the present value of estimated future cash flows, including both the principal and late-payment interest that accrue from the receivable's due date. In order to compute amortized cost, including late-payment interest recognized on the accrual basis, the BFF updates the time series of data regarding the percentages and collection times of late-payment interest on an annual basis, when the financial statements are prepared. The outcome of this updating process has confirmed, for 2016, on the basis of the times series analysis, the recoverability rate of 40% for late-payment interest and 1800 days for collection times.
With regard to the receivables purchased by Farmafactoring España, the average recovery percentage for late-payment interest observed tends to be equal to 100% and, on average, is collected in less time than receivables from the Italian National Healthcare System. However, since the sample observed was relatively small, a conservative decision was made to opt for the utilization of the same recovery rate of 40% and the same collection time of 1800 days as used for BFF.

Magellan, the Group acquired in 2016, only recognizes late-interest interest on past due receivables when there is a reasonable certainty that the interest will be collected, on the basis of agreements reached with the counterparty debtors or when decided by a court of law.
Notwithstanding the minor significance of late-payment interest to the total of Magellan receivables, as part of the activities to complete the integration of the Group's processes, which also includes synchronizing the time series of data and the analysis instruments with those used by BFF, the Group adopted the estimation criteria decided locally by management when Magellan was listed. These confirm an almost integral recovery of the late-payment interest recognized in the income statement, net of discounts and/or rounding offs of a maximum of 3% granted to the debtors.

The cumulative amount of late-payment interest to which BFF and Farmafactoring España are entitled but have not yet collected, on non-recourse receivables purchased (the Provision for late-payment interest), is €547 million, of which only €186 million was recognized in income in the current and prior years.

7.1 Due from customers: breakdown by type

A breakdown of "Due from customers" referring to Banca Farmafactoring and Farmafactoring España is presented below:

• "performing" receivables purchased on a non-recourse basis, recorded in the name of the assigned debtor, which meet the conditions for derecognition and are measured at amortized cost, have a balance of €1,833,082 thousand, of which €154,561 thousand refers to the subsidiary Farmafactoring España.
Most of the non-recourse receivables purchased were already past due at the time of purchase and

the principal portion of the receivables is deemed collectible. The right to the late-payment interest, accrued or accruing, is acquired at the same time the receivables are purchased.
These receivables include receivables sold, totaling €137,380 thousand, but not derecognized as the sales transaction did not meet the derecognition requirements for the transfer of the risks and rewards associated with such receivables. The amount refers to one transaction for the securitization of healthcare receivables.
Receivables purchased below face value total €52,667 thousand.

• "Impaired assets" total €52,622 thousand. They include:
- Non-performing receivables: consist of exposures with parties that are in a state of insolvency or substantially similar situations, irrespective of any loss projections developed by the company.
Non-performing receivables thus include all receivables the collection of which is doubtful, net of writedowns for estimated impairment losses on receivables.
At December 31, 2016, the total of non-performing receivables, net of write-downs due to estimated impairment losses, is €7.2 million, including €492 thousand referring to local government entities that were already distressed when the receivables were purchased and another €0.9 million owed by Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition with creditors.

Other non-performing positions totaled about €8.6 million, including positions amounting to about €1.7 million that were completely written off against the provision for impairment and consequently have a zero balance. BFF's remaining positions, totaling about €6.9 million, are written down based only on the time value, as they consist of positions secured by sureties and exposures with local government entities in distress (including €492 thousand already purchased as distressed), for which no provisions were recognized, as the distressed condition is expected to be remedied resulting in the collection of 100% of the claim.
The portion of late-payment interest relating to non-performing positions, recognized when the estimate criteria were changed, in 2014, amounts to €13.6 million and was completely written off. This refers mainly to the position with Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition agreement with creditors.

- Past due receivables mainly include €45,429 thousand of receivables due from territorial entities which are overdue more than 90 days at the date of December 31, 2016.
Specifically, exposures with central administrations and central banks, public sector entities and territorial entities are deemed to be past due when the debtor has not made any payment for any of the debt positions owed to the financial intermediary for more than 90 days.

• Performing other loans due from customers amount to €166,634 thousand and mainly include:
- earned late-payment interest of about €101,392 thousand, including €86,890 thousand relating to BFF and €14,501 thousand relating to the Spanish subsidiary. This amount has already been recorded in the income statement in the current and prior years and refers only to late-payment interest that has been collected. Therefore, of the €186 million of late-payment interest recorded in the income statement, referring to the provision existing at December 31, 2016, €101.4 million refers to other loans and the remaining amount is in the item factoring;
- margins deposited as collateral with Cassa di Compensazione e Garanzia to secure reverse repos of €52,913 thousand.

Receivables from customers of the Magellan Group are represented as follows:

- performing finance leases of €6,816 thousand;
- performing factoring transaction with and without recourse of €117,603 thousand;
- performing other loans of €311,735 thousand;
- debt securities of €1,376 thousand issued by the Polish Public Administration;
- impaired assets total €9,224 thousand and include:

- Non-performing exposures: the total, net of writedowns for estimated impairment losses on receivables of €1,950 thousand, amounts to €4,872 thousand.
- Probable defaults (unlikely to pay concept): the exposures in the unlikely to pay category reflect the judgment made by the intermediary about the unlikeliness, absent such actions as the enforcement of guarantees, that the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts or installments. At December 31, 2016, the net exposures classified as unlikely to pay are equal to €3,614 thousand.
- Past due exposures: net past due exposures total €739 thousand at December 31, 2016.

(in € thousands)

Types of transactions/ Amounts	12/31/2016						12/31/2015					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans												
1. Current accounts	0											
2. Reverse repos												
3. Mortgages												
4. Credit cards, personal loans, garnishment of wages												
5. Finance leases	6,817		111									
6. Factoring	1,950,685	492	54,467				1,788,975	743	44,243			
7. Other loans	478,370		6,776				127,288		755			
Debt securities												
8. Structured securities												
9. Other	1,376											
Total (carrying amount)	**2,437,248**	**492**	**61,355**				**1,916,263**	**743**	**44,998**			

Fair value

Due from customers mainly refers to receivables purchased on a non-recourse basis for which an active and liquid market is not available. They mainly consist of past due receivables from the Public Administration for which the price in a hypothetically independent transaction cannot be easily determined, partly due to difficulties in arriving at a reasonable assessment of the liquidity risk that would be accepted by the market for such transactions.

Consequently, the carrying amount (determined based on "amortized cost" and taking into account any individual and collective impairment losses) and in relation to the nature, type, duration and collection projections of such assets was deemed to be substantially representative of the fair value of these receivables on the reporting date.

7.2 Due from customers: breakdown by debtor/issuer

(in € thousands)

	12/31/2016			12/31/2015		
	Performing	Impaired		Performing	Impaired	
Types of transactions/Amounts		Purchased	Other		Purchased	Other
1. Debt securities:						
a) Governments						
b) Other public entities						
c) Other issuers						
- non-financial companies						
- financial companies						
- insurance companies						
- other						
2. Loans to:						
a) Governments	409,493		4,662	281,571		31
b) Other public entities	1,782,774	492	43,152	1,584,138	743	10,029
c) Other entities						
- non-financial companies	94,195		7,183	6,506		33,707
- financial companies	53,045			28,932		
- insurance companies	0					
- other	97,740		6,358	15,116		1,231
Total	**2,437,248**	**492**	**61,355**	**1,916,263**	**743**	**44,998**

Section 8 – Hedging derivatives - Item 80

8.1 Hedging derivatives: breakdown by type of hedge and by level
€529 thousand

(in € thousands)

	FV 12/31/2016			CA 12/31/2016	FV 12/31/2015			CA 12/31/2015
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1) Fair value		2		1,110				
2) Cash flows		527		80,508				
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**529**		**81,618**				

Key:
FV = fair value
CA = carrying amount

8.2 Hedging derivatives: breakdown by portfolio and by type of hedge

(in € thousands)

Transactions/ Types of hedges	Fair value						Cash flows		Foreign invest.
	Specific risks					Generic	Specific	Generic	
	interest rate risk	exchange rate risk	credit risk	price risk	more risks				
1. Available-for-sale financial assets									
2. Receivables		2							
3. Held-to-maturity financial assets									
4. Portfolio									
5. Other transactions									
Total assets		**2**							
1. Financial liabilities							527		
2. Portfolio									
Total liabilities							**527**		
1. Expected transactions									
2. Financial assets and liabilities portfolio									

The positive fair value at December 31, 2016 refers to the following types of hedges:
• cash flow hedge: interest rate swap contract with a notional amount in Polish currency (zloty) executed to hedge a variable rate medium-term loan obtained in 2016 in Polish currency from changes in future cash flows arising from fluctuations in market interest rates (Wibor).
• fair value hedge: foreign exchange swap contracts executed to hedge intragroup loans (between Banca Farmafactoring and Magellan) entered into 2016 in Polish currency (zloty) and in Czech currency (koruna) from changes in fair value arising from fluctuations in the euro-zloty and euro-koruna exchange rates.

Section 10 – Equity investments - Item 100

€302 thousand

Dividends and similar income refer to the income from two legal firms in which Magellan is a managing partner.

10.1 Equity investments: information on investment relationships

Name	Head office	Location of operations	Investment holding %	Voting rights %
A. Companies controlled exclusively				
1. Kancelaria Prawnicza Karnowski I Wspolnik sp.K.	Lodz (Poland)	Lodz (Poland)	99%	
2. Restrukturyzacyjna Prawnicza Karnowski I Wspolnik sp.K.	Lodz (Poland)	Lodz (Poland)	99%	
B. Jointly controlled companies				
C. Companies over which significant influence is exercised				

10.4 Minor equity investments: accounting information

(in € thousands)

Name	Carrying amount of the investments	Total assets	Total liabilities	Total revenues	Profit (loss) after taxes from continuing operations	Profit (loss) after taxes from discontinued operations	Profit (loss) for the year (1)	Other comprehensive income after taxes (2)	Comprehensive income (3)=(2)+(1)
A. Subsidiaries controlled exclusively									
1. Kancelaria Prawnicza Karnowski I Wspolnik sp.K.	5	249	36	655	213		213		213
2. Restrukturyzacyjna Prawnicza Karnowski I Wspolnik sp.K.	86	82	3	0	(7)		(7)		(7)
B. Jointly controlled companies									
C. Companies over which significant influence is exercised									

Section 12 – Property, plant and equipment – Item 120

€12,988 thousand

12.1 Property, plant and equipment used for business activities: breakdown of assets carried at cost

(in € thousands)

Assets/Amounts	Total 12/31/2016	Total 12/31/2015
1. Owned assets		
a) land	3,685	3,685
b) buildings	7,145	7,470
c) furniture and fixtures	275	275
d) electronic systems	904	872
e) other	979	364
2. Leased assets acquired under finance leases		
a) land		
b) buildings		
c) furniture and fixtures		
d) electronic systems		
e) other		
Total	**12,988**	**12,666**

12.5 Property, plant and equipment used for business activities: year-over-year change

(in € thousands)

	Land	Buildings	Furniture and fixtures	Electronic systems	Other	Total
A. Gross beginning balance	**3,685**	**16,828**	**2,441**	**6,147**	**5,324**	**34,425**
A.1 Total net adjustment in value		(9,358)	(2,166)	(5,275)	(4,960)	(21,759)
A.2 Net beginning balance	**3,685**	**7,470**	**275**	**872**	**364**	**12,666**
B. Increases:						
B.1 Purchases			69	632	191	892
B.2 Capitalized improvements						
B.3 Writebacks						
B.4 Positive fair value changes allocated to:						
a) equity						
b) income statement						
B.5 Net exchange gains						
B.6 Transfers from properties held for investment						
B.7 Other changes						
Business combinations					712	712
C. Decreases						
C.1 Disposals				(1)		(1)
C.2 Depreciation		(325)	(69)	(599)	(131)	(1,124)
C.3 Impairment losses allocated to:						
a) equity						
b) income statement						
C.4 Negative fair value changes allocated to:						
a) equity						
b) income statement						
C.5 Net exchange losses						
C.6 Transfers to:						
a) property, plant and equipment held for investment						
b) assets held for sale						
C.7 Other changes						
Business combinations					(157)	(157)
D. Net ending balance	**3,685**	**7,145**	**275**	**904**	**980**	**12,988**
D.1 Total net adjustment in value		(9,679)	(2,211)	(5,826)	(5,044)	(22,760)
D.2 Gross ending balance	**3,685**	**16,824**	**2,486**	**6,730**	**6,023**	**35,748**
E. Carried at cost	3,685	16,824	2,486	6,730	6,023	35,748

At the date of IFRS first-time adoption (January 1, 2005), buildings owned by BFF and used in its business activities (Milan and Rome) were measured at fair value, which became the new carrying amount of the assets as of that date.
The measurement at first-time adoption resulted in a revaluation of the buildings for about €4 million, from about €5 million to about €9 million.
In the financial statements, the land and building owned in Milan (at Via Domenichino 5) were valued separately based on an appraisal conducted by the same company that determined their value.
The land on which the Rome building sits was not separated because BFF is not the owner of the entire building.

Magellan's property, plant and equipment amount to €555 thousand.

Section 13 – Intangible assets – Item 130

€25,811 thousand

13.1 Intangible assets: breakdown by type of asset

(in € thousands)

Assets/Amounts	12/31/2016 Finite life	12/31/2016 Indefinite life	12/31/2015 Finite life	12/31/2015 Indefinite life
A.1 Goodwill				
A.1.1 attributable to the owners of the parent		22,146		
A.1.2 attributable to non-controlling interests				
A.2 Other intangible assets				
A.2.1 Assets measured at cost:				
a) intangible assets generated internally				
b) other	3,665		2,747	
A.2.2 Assets measured at fair value:				
a) intangible assets generated internally				
b) other				
Total	**3,665**	**22,146**	**2,747**	

Goodwill was recognized as a result of the acquisition of the Magellan Group by the BFF Group. Pursuant to IFRS 3, within 12 months of the acquisition date the purchase price must be allocated to the balance sheet components of the acquired entity, determining the final amount of goodwill (Purchase Price Allocation - PPA). Since 12 months have not elapsed as of the date of these financial statements, the value attributed to goodwill may be revised. Considering that the Magellan Group was purchased as of June 1, 2016 and that the actual results for the year are in line with the forecasts that were taken into account on acquisition, it was deemed that no conditions existed for the recognition of an impairment loss.

In accordance with the information required by IAS 38, paragraph 118, letter a), a statement is made to the effect that the amortization rates applied are based on the estimated useful lives of the intangible assets.

13.2 Intangible assets: year-over-year change

(in € thousands)

	Goodwill	Other intangible assets: generated internally		Other intangible assets: Other		Total
		DEF	INDEF	DEF	INDEF	
A. Beginning balance				**2,747**		**2,747**
A.1 Total net adjustment in value						
A.2 Net beginning balance				**2,747**		**2,747**
B. Increases						
B.1 Purchases	22,146			1,886		24,032
B.2 Increase in internally generated intangible assets						
B.3 Writebacks						
B.4 Positive fair value changes allocated to:						
- equity						
- income statement						
B.5 Exchange gains						
B.6 Other changes						
Business combinations				367		367
C. Decreases						
C.1 Disposals						
C.2 Adjustments for						
- amortization				(1,319)		(1,319)
- impairment losses allocated to:						
+ equity						
+ income statement						
C.3 Negative fair value changes allocated to:						
- equity						
- income statement						
C.4 Transfers to non-current assets held for sale						
C.5 Exchange losses						
C.6 Other changes						
Business combinations				(16)		(16)
D. Net ending balance	**22,146**	**0**	**0**	**3,665**	**0**	**25,811**
D.1 Net adjustment in value						0
E. Gross ending balance	**22,146**	**0**	**0**	**3,665**	**0**	**25,811**
F. Carried at cost	22,146	0	0	3,665	0	25,811

Key:
DEF = finite
INDEF = indefinite

Goodwill of €22,146 thousand was recognized on the acquisition of Magellan in a business combination as shown in the above table.

Goodwill is recognized at cost, net of amortization which is computed based on the estimated useful economic life of the goodwill.

Section 14 – Tax assets and liabilities – Item 140 of assets and Item 80 of liabilities

Current tax assets amount to €21,451 thousand and mainly include advance payments for IRES and IRAP taxes made by BFF.
Current tax liabilities amount to €24,129 and include the accrual for income taxes for the year of the companies in the Group.

14.1 Deferred tax assets: breakdown

€4,419 thousand

The main components of deferred tax assets include the portion of amounts deductible in future years of impairment charges on receivables, the accrual on deferred employee benefit obligations, and depreciation and amortization the recognition of which is deferred for tax purposes.

14.2 Deferred tax liabilities: breakdown

€49,529 thousand

Deferred tax liabilities mainly refer to the taxes on late-payment interest recognized in the financial statements on an accrual basis but which will form part of the taxable income in future years when the interest is collected, in accordance with Article 109, Section 7, of Presidential Decree No. 917 of 1986, as well as the provisions for the writedown of receivables referring to prior years.

14.3 Change in deferred tax assets (through the income statement)
€4,073 thousand

(in € thousands)

	12/31/2016	12/31/2015
1. Beginning balance	**2,569**	**2,193**
2. Increases		
2.1 Deferred tax assets recognized during the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) writebacks		
d) other	1,570	556
2.2 New taxes or tax rate increases		
2.3 Other		
Business combinations	675	0
3. Decreases		
3.1 Deferred tax assets derecognized during the year		
a) reversals	(695)	(180)
b) writeoffs due to non-recoverability		
c) due to changes in accounting policies		
d) other		
3.2 Tax rate reductions		
3.3 Other decreases		
a) Conversion into tax credit under Law No. 214/2011		
b) other		
Business combinations	(47)	0
4. Ending balance	**4,073**	**2,569**

14.3.1 Change in deferred tax assets under Law 214/2011 (through the income statement)

(in € thousands)

	Total 12/31/2016	Total 12/31/2015
1. Beginning balance	**547**	**470**
2. Increases	241	77
3. Decreases		
3.1 Reversals	(39)	0
3.2 Conversion into tax credit		
a) due to reported losses		
b) due to tax losses		
3.3 Other decreases		
4. Ending balance	**749**	**547**

14.4 Change in deferred tax liabilities (through the income statement)

€49,126 thousand

(in € thousands)

	12/31/2016	12/31/2015
1. Beginning balance	**46,504**	**42,017**
2. Increases		
2.1 Deferred tax liabilities recognized during the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) other	2,217	5,200
2.2 New taxes or tax rate increases		
2.3 Other increases		
Business combinations	722	0
3. Decreases		
3.1 Deferred tax liabilities derecognized during the year		
a) reversals	(218)	(714)
b) due to changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
Business combinations	(99)	0
4. Ending balance	**49,126**	**46,504**

14.5 Change in deferred tax assets (through equity)
€346 thousand

(in € thousands)

	12/31/2016	12/31/2015
1. Beginning balance	**371**	**353**
2. Increases		
2.1 Deferred tax assets recognized during the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) other	9	31
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax liabilities derecognized during the year		
a) reversals	(33)	(13)
b) writedowns of non-recoverable items		
c) due to changes in accounting policies		
d) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Ending balance	**346**	**371**

14.6 Change in deferred tax liabilities (through equity)
€403 thousand

(in € thousands)

	12/31/2016	12/31/2015
1. Beginning balance	**275**	**154**
2. Increases		
2.1 Deferred tax liabilities recognized during the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) other	403	238
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax liabilities derecognized during the year		
a) reversals	(275)	(118)
b) due to changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Ending balance	**403**	**275**

Section 16 – Other assets – Item 160

16.1 Other assets: breakdown
€7,135 thousand

(in € thousands)

Details	12/31/2016	12/31/2015
Security deposits	37	20
Inventories	224	0
Other receivables	4,678	2,027
Accrued income and prepaid expenses	2,196	1,059
Total	**7,135**	**3,106**

Other receivables refer primarily to non-commercial receivables from sundry debtors and pending items.
Accrued income and prepaid expenses refer to the difference in timing of costs relating to administrative expenses.
Inventories, as defined by IAS 2, refer to the purchase by the Magellan Group of medical vehicles and equipment that is intended, over a short time, to be sold or leased.

LIABILITIES AND EQUITY

Section 1 – Due to banks – Item 10

€634,807 thousand

1.1 Due to banks: breakdown by type

(in € thousands)

Types of transactions/Amounts	12/31/2016	12/31/2015
1. Due to Central Banks		206,000
2. Due to banks		
2.1 Current accounts and demand deposits	4,485	
2.2 Restricted deposits	630,322	482,076
2.3 Loans		
2.3.1 Repos		
2.3.2 Other		5
2.4 Payables in respect of commitments to repurchase treasury shares		
2.5 Other payables		
Total	**634,807**	**688,081**
Fair value - Level 1		
Fair value - Level 2		
Fair value - Level 3	**634,807**	**688,081**
Total fair value	**634,807**	**688,081**

"Due to banks" refers primarily to revocable and term financing facilities provided by the banking system at market rates.
It also includes the loan for the acquisition of Magellan S.A. secured from the Unicredit Group, for a total of about PLN 355 million, equal to 80% of the value of the public tender offer, for an equivalent amount of €80.5 million at December 31, 2016.

Section 2 – Due to customers – Item 20
€2,996,142 thousand

2.1 Due to customers: breakdown by type

(in € thousands)

Types of transactions/Amounts	12/31/2016	12/31/2015
1. Current accounts and demand deposits	78,454	21,298
2. Restricted deposits	743,984	395,354
3. Loans		
3.1 Repos	1,809,044	920,471
3.2 Other loans	288,653	267,014
4. Payables in respect of commitments to repurchase treasury shares		
5. Other payables	76,007	122,547
Total	**2,996,142**	**1,726,683**
Fair value - Level 1		
Fair value - Level 2		
Fair value - Level 3	**2,996,142**	**1,726,683**
Total fair value	**2,996,142**	**1,726,683**

"Due to customers" includes €822.4 million for the online deposit accounts offered in Italy and Spain in restricted deposits and current accounts.
Specifically, in 2016, deposit-taking was begun in Germany, under the freedom to provide services provision, by the Spanish branch of Banca Farmafactoring and is reserved exclusively for retail customers.

The counterparty in the reverse repurchase agreements, amounting to €1,809 million, is Cassa di Compensazione e Garanzia. These transactions were executed to refinance the BFF's securities portfolio.

"Other loans" refer to amounts due to financial institutions as follows:
- a facility amounting to €118.5 million in existing collaboration from International Factor Italia S.p.A. - IFITALIA;
- a facility amounting to €113.3 million in existing collaboration from Unicredit Factoring S.p.A..

"Other payables" principally refer to collections of managed receivables due to assignors.

Section 3 – Debt securities issued – Item 30

€634,283 thousand

3.1 Debt securities issued: breakdown by type

(in € thousands)

	Total 12/31/2016				Total 12/31/2015			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. **Securities**								
1. Bonds								
1.1 structured								
1.2 other	634,283	447,578	180,944		452,962	302,277	150,000	
2. Other securities								
2.1 structured								
2.2 other								
Total	**634,283**	**447,578**	**180,944**	**0**	**452,962**	**302,277**	**150,000**	**0**

On June 21, 2016, BFF successfully completed the placement of senior unsecured bonds, which join the previous bonds of €300 million issued in 2014 with a maturity date of June 12, 2017, having similar characteristics.
The bonds were issued through a private placement reserved for institutional investors for a total face value of €150 million. The 5-year bonds, which have a maturity date of June 21, 2021, are unsecured and unrated.
The bonds are measured at amortized cost using the effective interest method.
In August 2016, the existing securitization transaction with the Deutsche Bank Group was renewed for €85 million and is aimed at diversifying funding activities.
Receivables were sold to vehicle companies and not derecognized by BFF, since the sale did not meet the requirements for derecognition, i.e., the transfer of risks and benefits.
Debt securities issued also include the bonds issued by the subsidiary Magellan for €95.9 million.

Section 4 – Financial liabilities held for trading – Item 40

€7 thousand

4.1 Financial liabilities held for trading: breakdown by type

(in € thousands)

Types of transactions/Amounts	12/31/2016					12/31/2015				
	VN	FV			FV*	VN	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Balance sheet liabilities										
1. Due to banks										
2. Due to customers										
3. Debt securities										
3.1 Bonds										
3.1.1 Structured										
3.1.2 Other										
3.2 Other securities										
3.2.1 Structured										
3.2.2 Other										
Total A	0	0	0	0	0	0	0	0	0	0
B. Derivative instruments										
1. Financial derivatives										
1.1 Trading			7							
1.2 Related to fair value option										
1.3 Other										
2. Credit derivatives										
2.1 Trading										
2.2 Related to fair value option										
2.3 Other										
Total B	0	0	7	0	0	0	0	0	0	0
Total (A + B)	0	0	7	0	0	0	0	0	0	0

Key:
FV = fair value
FV* = fair value calculated excluding the changes in value due to the change in the credit class of the issuer as compared with the date of issue.
VN = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

These refer to financial derivatives issued by banks.
The financial instruments recorded in this category, amounting to €7 thousand, are represented by derivative contracts executed for the purpose of hedging the change in exchange rates through the

forward sale of foreign currency at a spot rate. These financial derivative contracts are recognized as assets or liabilities held for trading pursuant to the provisions of IAS 39, even though at the operational level they are considered risk hedging instruments.
Specifically with regard to Magellan, in 2016, foreign exchange swap agreements were executed to hedge the principal and interest on the bonds issued by Magellan (to be repaid in euros), from the fair value changes arising from fluctuations in the euro-zloty exchange rate.

Section 6 – Hedging derivatives – Item 60

€176 thousand

6.1 Hedging derivatives: breakdown by type of hedge and by level

(in € thousands)

	Fair value 12/31/2016			VN 12/31/2016	Fair value 12/31/2015			VN 12/31/2015
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1) Fair value		176		74,598				
2) Cash flows								
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total	**0**	**176**	**0**	**74,598**	**0**	**0**	**0**	**0**

Key:
VN = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

6.2 Hedging derivatives: breakdown by hedged portfolio and by type of hedge

(in € thousands)

Transactions/Type of hedge	Fair value						Cash flows		Foreign investment
	Specific					Generic	Specific	Generic	
	interest rate risk	exchange rate risk	credit risk	rischio di prezzo	more risks				
1. Available-for-sale financial assets									
2. Receivables		176							
3. Held-to-maturity financial assets									
4. Portfolio									
5. Other transactions									
Total assets	**0**	**176**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1. Financial liabilities									
2. Portfolio									
Total liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1. Expected transactions									
2. Financial assets and liabilities portfolio									

The negative fair value, at December 31, 2016, refers to the following type of hedge:
• fair value hedge: foreign exchange swap contracts executed to hedge intragroup loans (between Banca Farmafactoring and Magellan) entered into in 2016 in Polish currency (zloty) and in Czech currency (koruna) from changes in fair value arising from fluctuations in the euro-zloty and euro-koruna exchange rates.

Section 8 – Tax liabilities – Item 80

See "Section 14 – Tax assets and liabilities" of the Assets.

Section 10 – Other liabilities – Item 100

€54,320 thousand

10.1 Other liabilities: breakdown

(in € thousands)

Details	Total 12/31/2016	Total 12/31/2015
Payables to suppliers	2,747	1,553
Invoices to be received	7,278	7,378
Payables to the tax authorities	3,763	2,831
Payables to social security agencies	566	517
Payables to employees	4,900	3,374
Payables for receivables management	1,687	0
Collections pending allocation	14,529	26,618
Other payables	18,334	3,133
Accrued liabilities and deferred income	517	481
Total	**54,320**	**45,885**

"Payables to suppliers" and "Invoices to be received" refer to purchases of goods and the performance of services.
"Collections pending allocation" refer to payments received by December 31, 2016 but still outstanding since they had not been cleared and recorded by that date.
"Payables to the tax authorities" relate largely to unpaid withholding taxes on the online deposit accounts and on employee earnings from employment.
"Other payables" include portions of collections not yet transferred, stamp duties payable, payables to directors and other pending items.

Section 11 – Provision for employee severance indemnities – Item 110
€867 thousand

11.1 Provision for employee severance indemnities: year-over-year change

(in € thousands)

	12/31/2016	12/31/2015
A. Beginning balance	**883**	**717**
B. Increases		
B.1 Provision for the year	417	322
B.2 Other increases	49	0
C. Decreases		
C.1 Payments made	(120)	(13)
C.2 Other decreases	(361)	(143)
D. Ending balance	**867**	**883**
Total	**867**	**883**

11.2 Other information

The liability recognized in the financial statements at December 31, 2016 represents the present value of the obligation estimated by an independent actuarial firm.
"Other decreases" include differences resulting from actuarial valuation recognized directly in equity.
Specifically, IAS 19 no longer allows the option of using the corridor method, which was used to defer actuarial gains and losses, requiring instead their immediate recognition in comprehensive income for the year to which they are attributable.
The results of the actuarial measurement reflect the impact of the provisions of Law No. 296/2006 and the computation, for IAS 19 purposes, refers solely to vested employee severance benefits not transferred to supplementary pension funds or to the INPS Treasury Fund.
For details about the actuarial assumptions used to determine the liability at December 31, 2016, reference should be made to the table in Section 12.3 below.

Section 12 – Provisions for risks and charges – Item 120
€6,989 thousand

12.1 Provisions for risks and charges: breakdown

(in € thousands)

Items/Amounts	12/31/2016	12/31/2015
1. Pension funds	6,343	4,830
2. Other provisions		
2.1 Legal disputes		
2.2 Personnel expenses		
2.3 Other	646	365
Total	**6,989**	**5,195**

12.2 Provisions for risks and charges: year-over-year change

(in € thousands)

Items/Amounts	Total	
	Pension funds	Other provisions
A. Beginning balance	**4,830**	**365**
B. Increases		
B.1 Provision for the year	2,069	7
B.2 Change due to passing of time		
B.3 Variation due to change in the discount rate		
B.4 Other changes		
Business combinations	0	419
C. Decreases		
C.1 Use during the year	(556)	0
C.2 Variation due to change in the discount rate		
C.3 Other changes		
Business combinations	0	(144)
D. Ending balance	**6,343**	**646**

12.3 Defined benefit pension funds

The accrual for the year refers to the following:
• for €1,099 thousand, to the non-compete agreements with managers of Group companies;
• for €970 thousand, to the deferral of a portion of the annual bonuses for the first and second level staff.

Under a non-compete agreement, the employee agrees that, after the end of the employment relationship, he/she will not to engage, for any reason whatsoever, in any activities in direct competition with that of the Group. The commitment is for a three-year period and starts from the date that the employment relationship is ended.
As consideration for this commitment, BFF agrees to pay a specific amount to the employee in semiannual installments.

The features of the bonus system include medium-term restrictions, according to which 30% of the annual bonus will be paid after three years, provided BFF achieves specific targets relating to its profitability, regulatory capital requirements established by existing regulations and the employee's continued employment at the company.

In accordance with the provisions of IAS 19, the corresponding accruals were quantified based on an actuarial calculation performed externally by a specialized firm.
BFF's obligations were computed using the "Projected Unit Credit Method," which treats each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to compute the final obligation, in accordance with Paragraphs 64 and 65 of IAS 19.
This is an actuarial method that entails a valuation aimed at determining the average present value of BFF's obligations.
The main economic and demographic assumptions used for actuarial valuation purposes are the following:

• **Non-compete agreements**

The annual discount rate used to determine the present value of the obligation was deduced, consistently with paragraph 83 of IAS 19, from the iBoxx Corporate AA Index with a 10+ duration, reported at December 31, 2016 and equal to 1.31%. In determining the rate, a decision was made to choose the yield with a duration comparable to the duration of those in the valuation.

Death	Mortality tables RG48 published by the "Ragioneria Generale dello Stato"
Retirement	100% upon reaching AGO requisites
Frequency of voluntary resignation	3.00%
Clawback frequency	3.00%
Withdrawal frequency (where envisaged)	3.00%
Frequency of revocation of mandate to Chief Executive Office	0.00%
Increase in annual compensation for executives	3.40%
Increase in annual compensation for supervisors	2.40%
Contribution rate	27.40%

- **Deferred bonus:**

Discount rate

The financial basis used to calculate the present value of the obligations was determined, consistently with paragraph 83 of IAS 19, by reference to the iBoxx Eurozone Corporate AA Index (in line with the duration of the plan).

Mortality and disability

To estimate the phenomenon of mortality, the RG48 survival table used by the State General Accounting Office to estimate the retirement expenses of the Italian population was utilized. For the probability of total and permanent disability, the tables adopted in the INPS model for the 2010 forecasts were utilized.

Frequency of resignations and dismissals

Equal to 3%.

Section 15 – Equity – Items 140, 160, 170, 180, 190, 200 and 220
€333,746 thousand

15.1 "Share capital" and "Treasury shares": breakdown
€130,983 thousand

Types	Amount
1. Share capital	**130,983**
1.1 Ordinary shares	130,900
1.2 Other shares (to specify)	83

The authorization for the amendments to the bylaws, contained in the BFF "Report on proposed amendments to the by-laws", was issued by the Bank of Italy on April 6, 2016, pursuant to Article 56 of the Consolidated Law on Banking. As a result, on May 18, 2016, the Extraordinary Shareholders' Meetings of BFF approved a bonus increase in share capital, pursuant to Article 2349 of the Italian Civil Code, up to a maximum of €134,750, corresponding to a maximum number of 1,750 special shares, through the conversion of retained earnings, as shown in the most recently approved financial statements, in a one-time award to be made by June 30, 2016.
The bonus increase in share capital from €130,900,000 to €130,982,698 was registered in the Milan Company Register on June 22, 2016 and 1,074 bonus special shares (6 for each employee) were issued as of the date of May 31, 2016.
The share capital of BFF, at December 31, 2016, thus consists of 1,701,074 shares, described as follows:

15.2 Share capital – Number of shares of the parent: year-over-year change

Items/Types	Ordinary	Other
A. Shares at beginning of the year		
- fully paid	1,700,000	
- not fully paid		
A.1 Treasury shares (-)		
A.2 Shares outstanding: beginning balance	**1,700,000**	
B. Increases		
B.1 New issues		
- against payment		
- business combinations		
- bond conversions		
- exercise of warrants		
- other		
- free		
- to employees		1,074
- to directors		
- other		
B.2 Sales of treasury shares		
B.3 Other changes		
C. Decreases		
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Transactions for sale of companies		
C.4 Other changes		
D. Shares outstanding: ending balance	**1,700,000**	**1,074**
D.1 Treasury shares (+)		
D.2 Shares outstanding at end of year		
- fully paid	1,700,000	1,074
- not fully paid		

15.4 Earnings reserves: other information

In accordance with the provisions of Article 2427, Section 7-bis, of the Italian Civil Code, the tables that follow provide a breakdown of the individual components of equity according to their utilization option, the amount available for distribution and past utilization in the three years previous to the date of the preparation of these financial statements.

(in € thousands)

	12/31/2016	Possibility of use *(a)*	Amount available	Summary of use in the last three years	
				For absorption of losses	For other reasons
Share capital	**130,983**				
Reserves	**126,132**				
- Legal reserve	27,400	*B*			
- Extraordinary reserve	89	*A,B,C*	89		
- Retained earnings	98,643	*A,B,C*	98,643		
Revaluation reserves	**4,495**				
- Available-for-sale securities	471		471		
- Other	4,024		4,024		
Total share capital and reserves	**261,610**		**103,227**		

(a) Possibility of use: A= for share capital increases; B= for absorption of losses; C= for distribution to shareholders.

Changes in reserves are as follows:

(in € thousands)

	Legal reserve	Retained earnings	Other reserves: Extraordinary	Total
A. Beginning balance	**26,390**	**100,930**	**89**	**127,409**
B. Increases				
B.1 Appropriation of profit	1,010	8,121		9,131
B.2 Other changes				
C. Decreases				
C.1 Uses				
- absorption of losses				
- distribution		(9,106)		(9,106)
- transfer to share capital		(83)		(83)
C.2 Other changes		(1,220)		(1,220)
D. Ending balance	**27,400**	**98,643**	**89**	**126,132**

Legal reserve
The increase of €1,010 thousand is due to the appropriation of part of the profit for the year ended December 31, 2015 of Farmafactoring España, in accordance with the resolution approved by the Ordinary Shareholders' Meeting on February 24, 2016.

Retained earnings
The net decrease of €2,287 thousand is mainly due to the appropriation of the entire profit of the Group for the year 2015 by Banca Farmafactoring, in accordance with the resolution approved by the Ordinary Shareholders' Meeting on March 31, 2016, and the payment of extraordinary dividends by Farmafactoring España during 2016.

Revaluation reserves
Revaluation reserves at December 31, 2016 total €4,495 thousand and mainly include the first-time adoption reserve arising from the revaluation of owned buildings when the transition was made to international reporting standards.
The increase of €311 thousand compared to December 31, 2015 primarily reflects the BFF reserve for hedging derivatives.

Other information

1. Guarantees provided and commitments

(in € thousands)

Transactions	Amount 12/31/2016	Amount 12/31/2015
1) Financial guarantees provided to	22	
a) Banks	*22*	
b) Customers		
2) Commercial guarantees provided		
a) Banks		
b) Customers		
3) Irrevocable commitments to disburse funds	127,986	117,461
a) Banks		
i) for certain use		
ii) for uncertain use		
b) Customers	127,986	117,461
i) for certain use		
ii) for uncertain use	*127,986*	*117,461*
4) Underlying commitments for credit derivatives: sale of protection		
5) Assets used to guarantee obligations of third parties		
6) Other commitments		
Total	**128,008**	**117,461**

Commitments for uncertain use, totaling €127,986 thousand refer to commitments towards customers to purchase receivables that have already been identified.

2. Assets pledged to secure Group liabilities and commitments

(in € thousands)

Portfolios	Amount 12/31/2016	Amount 12/31/2015
1. Financial assets held for trading		
2. Financial assets designated at fair value		
3. Available-for-sale financial assets	185,165	326,029
4. Held-to-maturity financial assets	1,623,209	822,350
5. Due from banks		
6. Due from customers	630,024	651,515
7. Property, plant and equipment		

"Available-for-sale financial assets" and "Held-to-maturity financial assets" consist of government securities used as collateral in operations with the ECB and reverse repurchase transactions.
"Loans and receivables" include €137,380 thousand of receivables sold but not derecognized as part of the current securitization transaction and €332,168 thousand for receivables pledged to secure financing transactions with Ifitalia and Unicredit Factoring. An amount of €160,476 thousand also refers to the Magellan Group's business.

5. Asset management and trading on behalf of others

(in € thousands)

Types of services	Amount
1. Execution of orders on behalf of customers	
a) purchases	
1. settled	
2. unsettled	
b) sales	
1. settled	
2. unsettled	
2. Portfolio management	
a) individual	
b) collective	
3. Custody and administration of securities	**1,971,500**
a) third party securities on deposit: relating to custodian bank activities (excluding portfolio management)	
1. securities issued by companies included in consolidation	
2. other securities	
b) third party securities on deposit (excluding portfolio management): other	
1. securities issued by companies included in consolidation	
2. other securities	
c) third party securities deposited with third parties	
d) owned securities deposited with third parties	1,971,500
4. Other operations	

The amount refers to the face value of securities owned by the Group, classified in the AFS and HTM portfolios.

Parte C – Consolidated Income Statement

All amounts are stated in thousands of euros.

Section 1 – Interest – Items 10 and 20

1.1 Interest income and similar revenues: breakdown

€190,226 thousand

(in € thousands)

Items/Types	Debt securities	Loans	Other transactions	Total 2016	Total 2015
1. Financial assets held for trading					
2. Financial assets designated at fair value					
3. Available-for-sale financial assets	491			**491**	**1,322**
4. Held-to-maturity financial assets	3,503			**3,503**	**4,526**
5. Due from banks		88	6	**93**	**144**
6. Due from customers	103	186,035		**186,138**	**155,952**
7. Hedging derivatives					
8. Other assets					**2**
Total	**4,097**	**186,123**	**6**	**190,226**	**161,946**

1.3 Interest income and similar revenues: other information

Interest income on "Available-for-sale financial assets" of €491 thousand and on "Held-to-maturity financial assets" of €3,503 thousand, was generated by government securities purchased by BFF to hedge liquidity risk and optimize the cost of money.
Interest income is recognized by the amortized cost method, according to which the income generated by such assets is recognized in relation to the return deriving from the expected cash flows.

Interest income on "Due from banks" refers to credit balances on current accounts of the Group with the banking system.

Interest income on "Due from customers" for loans amounts to €186,138 thousand and mostly consists of maturity commissions charged to assignors for the purchase of non-recourse receivables and late-payment interest for the year, relating to the Group.

The recognition principles applied for these fees and commissions reflects the amortized cost valuation criterion used for receivables acquired on a non-recourse basis, as required by IAS 39, according to which the income generated by such assets is recognized in relation to the return deriving from the expected cash flows.

In order to compute amortized cost, including late-payment interest recognized on the accrual basis, BFF updated the time series of data regarding the percentages and collection times of late-payment interest on an annual basis when the financial statements were prepared. The outcome of this analysis has confirmed, on the basis of the times series analysis, the recoverability rate of 40% for late-payment interest and 1800 days for collection times used for the preparation of the 2016 financial statements.

In accordance with IAS 39, the Magellan Group measures its receivables at amortized cost, including late-payment interest, and uses an estimated 97% recovery percentage, based on evidence from prior years. The 97% recovery rate is always calculated on an 8% interest rate, despite the fact that, for some cases, the rate to be applied for the calculation of late-payment interest, in Poland, is equal to 9.5%, starting from January 1, 2016. Certain cases are treated separately because of conditions that were decided in settlement agreements.

With regard to the receivables purchased by Farmafactoring España, the average recovery percentage for late-payment interest observed tends to be equal to 100% and, on average, is collected in less time than receivables from the Italian National Healthcare System. However, since the sample observed was relatively small, a conservative decision was made to opt for the utilization of the same recovery rate of 40% and the same collection time of 1800 days as used for BFF.

1.4 Interest expense and similar expenses: breakdown
€31,020 thousand

(in € thousands)

Items/Types	Payables	Securities issued	Other transactions	Total 2016	Total 2015
1. Due to central banks	14			**14**	**114**
2. Due to banks	6,550			**6,550**	**7,574**
3. Due to customers	6,405		2,021	**8,426**	**11,850**
4. Debt securities issued		15,099		**15,099**	**9,300**
5. Financial liabilities held for trading			930	**930**	**60**
6. Financial liabilities designated at fair value					
7. Other liabilities and provisions					
8. Hedging derivatives			1	**1**	**0**
Total	**12,968**	**15,099**	**2,952**	**31,020**	**28,898**

The interest expense component "Due to banks - Payables" refers to loans received from the banking system.

Interest expense on "Due to customers - Payables" mainly refers to the interest expense on the online deposit accounts of the Bank: specifically, €7,368 thousand for Conto Facto, offered in Italy, and €3,121 thousand for Cuenta Facto, launched in August 2015 by the Spanish branch of Banca Farmafactoring. This item also includes interest on the loans secured from other factoring companies of €451 thousand and to interest (income) on repos of €5,332 thousand.

Interest expense on "Debt securities issued" refers to the two BFF bond issues for €300 million and for €150 million, as well as the Magellan bond issued for €95.9 million.

Compared to 2015, interest expenses increased by about €2.1 million due to Magellan's interest expenses which, for the seven months that it has been in the Group, totaled €6.4 million.
Considering only BFF and Farmafactoring España, interest expenses recorded during the year decreased by €4.3 million. The decrease is due to a reduction in the cost of money as a result of renegotiating certain loans and facilities, diversifying the forms of deposit-taking, refinancing the government securities portfolio and despite a greater average financial exposure recorded during the year in order to support the Group's growth.

1.5 Interest expense and similar expenses: differences relating to hedging transactions
€1 thousand

(in € thousands)

Items	2016	2015
A. Positive differences relating to hedging transactions	(38)	0
B. Negative differences relating to hedging transactions	39	0
C. Balance (A-B)	**1**	**0**

Section 2 – Fees and commissions – Items 40 and 50

2.1 Fee and commission income: breakdown

€7,832 thousand

(in € thousands)

Types of services/Amounts	Total 2016	Total 2015
a) guarantees provided		
b) credit derivatives		
c) management, brokerage and consulting services:		
1. securities trading		
2. currency trading		
3. portfolio management		
3.1. individual		
3.2. collective		
4. custody and administration of securities		
5. custodian bank		
6. placement of securities		
7. receipt and transmission of orders		
8. advisory services		
8.1 related to investments		
8.2 related to financial structure		
9. distribution of third-party services		
9.1. portfolio management		
9.1.1. individual		
9.1.2. collective		
9.2. insurance products		
9.3. other products		
d) collection and payment services	7,711	8,321
e) securitization servicing		
f) factoring		
g) tax collection services		
h) management of multilateral trading facilities		
i) management of current accounts		
j) other services	121	68
Total	**7,832**	**8,389**

The balance mainly refers to commissions relating to the mandates for the management and collection of receivables.

2.2 Fee and commission expenses: breakdown
€4,478 thousand

(in € thousands)

Types of services/Amounts	Total 2016	Total 2015
a) guarantees received		
b) credit derivatives		
c) management and brokerage services:		
1. financial instruments trading		
2. currency trading		
3. portfolio management:		
3.1 own portfolio		
3.2 third-party portfolio		
4. custody and administration of securities		
5. placement of financial instruments		
6. off-site distribution of financial instruments, products and services		
d) collection and payment services		
e) other services	4,478	446
Total	**4,478**	**446**

The increase in expenses from fees and commissions is mainly due to the conclusion of the process to delist the subsidiary Magellan.
In fact, on October 27, 2016 the waiver process for the bonds issued by Magellan was successfully completed and, at the same time, specific waivers were obtained from the holders of the two bonds issued directly by BFF, as well as from the counterparties of some loan agreements entered into by BFF, aimed at preventing that the cross-default clauses in the bonds and in these loan agreements could be triggered in the event of a significant event of default for the Group, which could have been the delisting of Magellan.
Following the positive outcome of the waiver process, the delisting of Magellan's shares does not constitute either an event of default for any of Magellan's bonds or for any other loan of the Group.

The remaining amount of commission and fee expenses refers to expenses on existing banking relationships.

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income

€61 thousand

(in € thousands)

Items/Income	Total 2016		Total 2015	
	Dividends	Units in investment funds	Dividends	Units in investment funds
A. Financial assets held for trading				
B. Available-for-sale financial assets				
C. Financial assets designated at fair value		61		
D. Equity investments				
Total	**0**	**61**	**0**	**0**

Dividends and similar income refer to the income from two legal firms in which Magellan has investments.

Section 4 – Gains (losses) on financial assets and liabilities held for trading – Item 80

4.1 Gains on financial assets and liabilities held for trading: breakdown
€682 thousand

(in € thousands)

Items/Income components	Gains (A)	Gains on trading (B)	Losses (C)	Losses on trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**0**	**0**	**0**	**0**	**0**
1.1 Debt securities					
1.2 Equity instruments					
1.3 Units in investment funds					
1.4 Loans					
1.5 Other assets					
2. Financial liabilities held for trading	**0**	**0**	**0**	**0**	**0**
2.1 Debt securities					
2.2 Liabilities					
2.3 Other liabilities					
3. Financial assets and liabilities: exchange differences	**0**	**0**	**0**	**0**	**385**
4. Derivative financial instruments	**0**	**276**	**0**	**21**	**297**
4.1 Financial derivatives:		276		21	**297**
- on debt securities and interest rates					
- on equity instruments and share indexes					
- on currency and gold					
- other		276		21	**297**
4.2 Credit derivatives					
Total	**0**	**276**	**0**	**21**	**682**

Reconciliation of changes in derivatives

(in € thousands)

	Carrying amount	Change
Financial assets held for trading		
Amount at December 31, 2015	0	
Amount at December 31, 2016	111	111
Financial liabilities held for trading		
Amount at December 31, 2015	0	
Amount at December 31, 2016	7	(7)
Gains/losses *on financial assets and liabilities held for trading*		**104**

Section 5 – Fair value adjustment in hedging accounting – Item 90

€1 thousand

5.1 Fair value adjustments in hedge accounting: breakdown

(in € thousands)

Income components/Amounts	Total 2016	Total 2015
A. Income from:		
A.1 Fair value hedge derivatives		
A.2 Hedged financial assets (fair value)		
A.3 Hedged financial liabilities (fair value)		
A.4 Cash flow hedging derivatives	138	0
A.5 Assets and liabilities denominated in currency		
Total income from hedging activities (A)	138	-
B. Charges related to:		
B.1 Fair value hedge derivatives		
B.2 Hedged financial assets (fair value)		
B.3 Hedged financial liabilities (fair value)		
B.4 Cash flow hedging derivatives	139	23
B.5 Assets and liabilities denominated in currency		
Total charges from hedging activities (B)	139	23
C. Net fair value adjustments in hedge accounting (A - B)	**(1)**	**(23)**

At December 31, 2016, BFF has hedging transactions in place as described in detail in the Notes in Part B.

Section 6 – Gains (losses) on disposals and repurchases - Item 100
€706 thousand

6.1 Gains (losses) on disposals and repurchases: breakdown

(in € thousands)

Items/Income components	Total 2016			Total 2015		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial gains						
1. Due from banks						
2. Due from customers						
3. Available-for-sale financial assets	987	(281)	706	872		872
3.1 Debt securities	987	(281)	706	872		872
3.2 Equity securities						
3.3 Units in investment funds						
3.4 Loans						
4. Held-to-maturity financial assets						
Total assets	**987**	**(281)**	**706**	**872**		**872**
Financial liabilities						
1. Due to banks						
2. Due to customers						
3. Debt securities issued						
Total liabilities						

The amount refers to the sale of AFS securities during the year for a face amount of €554 million for a net gain of €706 thousand, before the tax effect.

Section 8 – Net losses/recoveries on impairment – Item 130

€2,244 thousand

8.1 Net losses/recoveries on impairment: breakdown

(in € thousands)

Operazioni/ Componenti reddituali	Value adjustments			Writebacks				Total 2016	Total 2015
	Specific		Portfolio	Specific		Portfolio			
	Writebacks	Other		A	B	A	B		
A. Due from banks									
- Loans									
- Debt securities									
B. Due from customers:	**(206)**	**(2,657)**	**(260)**		**109**		**834**	**(2,180)**	**(1,126)**
Impaired receivables purchased									
- Loans									
- Debt securities									
Other receivables	**(206)**	**(2,657)**	**(260)**		**109**		**834**	**(2,180)**	**(1,126)**
- Loans	(206)	(2,657)	(260)		109		834	**(2,180)**	**(1,126)**
- Debt securities									
C. Total	**(206)**	**(2,657)**	**(260)**	**0**	**109**	**0**	**834**	**(2,180)**	**(1,126)**

Key:
A = From interest
B = Other writebacks

8.2 Net losses/recoveries on impairment of available-for-sale financial assets: breakdown

(in € thousands)

Transactions/ Income components	Impairment losses		Impairment recoveries		Total 2016	Total 2015
	Specific		Specific			
	Writebacks	Other	From interest	Other recoveries		
A. Debt securities						
B. Equity securities		(64)			**(64)**	**0**
C. Units in investment funds						
D. Loans to banks						
E. Loans to customers						
F. Total		**(64)**			**(64)**	**0**

The AFS securities were adjusted by €57 thousand for the fair value measurement of BFF's share of the Voluntary Scheme established by FITD for the share capital increase of Cassa di Risparmio di Cesena and the writedown of the investment in Nomisma for €7 thousand.

Section 11 – Administrative costs – Item 180

€63,641 thousand

11.1 Personnel costs: breakdown

€24,924 thousand

(in € thousands)

Type of expense/Sectors	Total 2016	Total 2015
1) Employees		
a) wages and salaries	16,528	11,710
b) social security contributions	4,173	3,163
c) employee severance indemnity expenses		
d) pension expenses		
e) provision for employee severance indemnity	417	322
f) provision for pension and similar obligations		
- defined contribution		
- defined benefit		
g) payments to external supplementary pension funds	162	157
- defined contribution		
- defined benefit		
h) costs of share-based payment agreement		
i) other employee benefits	1,385	1,093
2) Other employees in service	432	304
3) Directors and statutory auditors	1,827	1,726
4) Early retirement costs		
Total	**24,924**	**18,476**

11.2 Average number of employees by category

Employees

(number)

Category	Average number 2016	Average number 2015
Executives	21	12
Supervisors	90	55
Rest of staff	261	117
Total	**372**	**183**

Since the contracts in the countries in which the Group operates are not the same as Italian contracts, the employees of the foreign companies have been conventionally divided into the executive, supervisors and staff categories.
Magellan staff is considered as part of the Group for the entire year 2016.

Other personnel
Internships: 9

11.4 Other benefits to employees
The amount of €1,385 thousand mainly refers to expenses incurred for training, insurance on behalf of staff, meal tickets and donations to employees.

11.5 Other administrative expenses: breakdown
€38,718 thousand

(in € thousands)

Details	Total 2016	Total 2015
Legal fees	2,193	3,172
Data processing costs	2,202	2,061
External credit management services	1,330	1,248
Supervisory Body fees	42	51
Legal fees for receivables under management	956	815
Notary fees	695	574
Notary fees to be recovered	277	188
Entertainment expenses and donations	1,126	859
Maintenance expenses	1,167	802
Non-deductible VAT	4,108	3,081
Other taxes	1,864	889
Consulting fees	12,285	6,041
Head office operating expenses	1,332	1,364
Resolution Fund and FITD	3,823	1,603
Other expenses	5,319	4,342
Total	**38,718**	**27,091**

The increase is mainly due to the following:
• Magellan's expenses from the date of acquisition of €3.2 million;
• non-recurring expenses connected with the acquisition of Magellan and other non-recurring transactions of about €9.7 million, before income taxes, compared to €3.5 million of non-recurring expenses recorded in the prior year;
• the increase of BFF's contribution to the National Resolution Fund and the Deposit Guarantee Scheme of €2.2 million, which is mainly the result of the increase in ordinary contribution of €1.1 million compared to the prior year, and the extraordinary contribution, requested by the Bank of Italy on December 28, 2016, to resolve the crises of Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio della Provincia di Chieti and Cassa di Risparmio di Ferrara. For 2015, the extraordinary contribution requested, for the same purpose, was €1,101 thousand.

This item also includes legal fees of €956 thousand and notary fees of €277 thousand, incurred on behalf of the assignor companies, which were fully recovered and included in other operating income.

Other administrative expenses, in 2016, which mainly include data outsourcing services, are listed below.

(in € thousands)

Details	Total 2016
Audit fees (external firm)	15
Data processing fees (external firms)	2,291
Collection fees (external firms)	1,208

Section 12 – Net provisions for risks and charges – Item 190

€2,075 thousand

12.1 Net provisions for risks and charges: breakdown

The accrual to the provisions compared to the prior year shows the following breakdown:

(in € thousands)

Details	Total 2016	Total 2015
Pension fund and similar obligations	2,069	877
Other provisions	7	2
Total	**2,075**	**879**

The provision to the "Pension fund and similar obligations" refers to deferred employee benefits.

Section 13 – Net writeoffs /writebacks on property, plant and equipment – Item 200

13.1 Net writeoffs/writebacks on property, plant and equipment: breakdown

€1,282 thousand

(in € thousands)

Assets/Income components	Depreciation (a)	Impairment losses (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Property plant and equipment				
A.1 Owned assets				
- used in the business	1,282			**1,282**
- held for investment				
A.2 Purchased under finance leases				
- used in the business				
- held for investment				
Total	**1,282**	**0**	**0**	**1,282**

Section 14 – Net writeoffs/writebacks on intangible assets – Item 210

14.1 Net writeoffs/writebacks on intangible assets: breakdown

€1,334 thousand

(in € thousands)

Assets/Income components	Amortization (a)	Impairment losses (b)	Writebacks (c)	Net adjustments (a + b - c)
A. Intangible assets				
A.1 Owned assets				
- generated internally				
- other	1,334			**1,334**
A.2 Purchased under finance leases				
Total	**1,334**	**0**	**0**	**1,334**

Section 15 – Other operating income (expenses) – Item 220

€5,704 thousand

15.1 Other operating expenses: breakdown

(in € thousands)

Details	Total 2016	Total 2015
Prior period expenses		
Rounding off and allowance expenses	(88)	(65)
Other expenses	(1,577)	(3)
Guarantee fund expenses		
Registration tax expenses		
Total	**(1,665)**	**(68)**

15.2 Other operating income: breakdown

(in € thousands)

Details	Total 2016	Total 2015
Recovery of legal fees for purchases of non-recourse receivables	2,160	1,256
Recovery of operational legal fees	461	746
Receivables realized at other than face value	2	0
Prior year items	2,101	903
Recovery of assignor notary expenses	214	188
Other income	2,432	1,118
Total	**7,369**	**4,211**

Section 20 – Income taxes on profit from continuing operations – Item 290
€26,997 thousand

20.1 Income taxes on profit from continuing operations: breakdown

(in € thousands)

Income components/Sectors	Total 2016	Total 2015
1. Current taxes	26,122	22,979
2. Adjustment to current taxes of prior years		
3. Decrease in current taxes for the year		
3.*bis* Reduction in taxes for the year due to tax credit under Law 214/2011		
4. Change in deferred tax assets	(368)	(362)
5. Change in deferred tax liabilities	1,243	4,912
6. Income taxes for the year	**26,997**	**27,529**

20.2 Reconciliation of theoretical tax and effective tax expense

The following reconciliation of theoretical tax and effective tax expense refers only to the parent Banca Farmafactoring S.p.A..

(in € thousands)

Details	IRES	IRAP
Taxable profit used for purposes of tax calculations	94,160	49,777
Theoretical tax expense 27.5% IRES – 5.57% IRAP	**25,894**	**2,773**
Permanent non-deductible differences	(17,676)	1,205
Deductible IRAP quota	(529)	0
Temporary differences taxable in future years	(7,986)	0
Temporary differences deductible in future years	3,546	0
Reversal of temporary differences from subsequent future years	(1,591)	(44)
Taxable profit	**69,924**	**50,938**
Current taxes for the year:	**19,229**	**2,837**

Part D - Consolidated Comprehensive Income

PROSPETTO ANALITICO DELLA REDDITIVITÀ CONSOLIDATA COMPLESSIVA

(in € thousands)

		Gross amount	Income tax	Net amount
10.	**Profit for the year**			**72,136,499**
	Other comprehensive income that will not be reclassified subsequently to the income statement			
20.	Property, plant and equipment			
30.	Intangible assets			
40.	Defined benefit plans	(33,042)	9,086	(23,955)
50.	Non-currents assets classified as held for sale			
60.	Portion of valuation reserves from investments accounted for using the equity method			
	Property, plant and equipment			
70.	**Hedges of foreign investments:**			
	a) fair value changes			
	b) reclassification to income statement			
	c) other changes			
80.	**Exchange rate differences:**			
	a) fair value changes			
	b) reclassification to income statement			
	c) other changes	(833,087)	275,502	(557,585)
90.	**Hedges of cash flows:**			
	a) fair value changes	516,301	(170,741)	345,560
	b) reclassification to income statement			
	c) other changes			
100.	**Available-for-sale financial assets:**			
	a) fair value changes	(15,417)	5,098	(10,319)
	b) reclassification to income statement			
	- impairment adjustments			
	- capital gains (losses)			
	c) other changes			
110.	**Non-current assets held for sale:**			
	a) fair value changes			
	b) reclassification to income statement			
	c) other changes			
120.	**Portion of valuation reserves from investments accounted for using the equity method:**			
	a) fair value changes			
	b) reclassification to income statement			
	- impairment adjustments			
	- capital gains (losses)			
	c) other changes			
130.	**Total other comprehensive income**	**(365,245)**	**118,946**	**(246,299)**
140.	**Comprehensive income (Item 10+130)**	**(365,245)**	**118,946**	**71,890,200**
150.	**Total comprehensive income attributable to non-controlling interests**			
160.	**Consolidated comprehensive income attributable to owners of the parent**	**(365,245)**	**118,946**	**71,890,200**

Part E - Risks and related Risk Management Policies

All amounts in the tables are stated in thousands of euros.

Foreword

The Group adopted suitable corporate governance tools and adequate management and control mechanisms in order to mitigate the risks to which it is exposed.
These safeguards are part of the governance of the organization and of the system of internal controls, aimed at ensuring management practices grounded in the canons of efficiency, effectiveness and fairness, covering every type of business risk consistent with the characteristics, dimensions and complexity of the business activities carried out by the Group. With this in mind, the Group formalized its risk management policies, periodically reviewing them to ensure their effectiveness over time and constantly monitoring the actual deployment of risk management and control processes. These policies define:

• the governance of the risks and responsibilities of the organizational units involved in the management process;
• the mapping of the risks to which the Group is exposed, the measuring and stress testing methods and the information flows that summarize the monitoring activities;
• the annual assessment process on the adequacy of internal capital;
• the activities for the assessment of the prospective adequacy of capital associated with the strategic planning process.

The corporate governance bodies of BFF, in its capacity as the Group's parent company, define the risk governance and management model at the Group level, taking into account the specific types of business and the related risk profiles characterizing the entire Group, with the aim of creating an integrated and consistent risk management policy. Within this framework, BFF's corporate governance bodies perform the functions entrusted to them not only with regard to its specific business activities but also taking into account the Group's operations as a whole and the risks to which it is exposed and involving, as appropriate, the governance bodies of the subsidiary in the decisions made regarding risk management procedures and policies.

At the Group level, the Risk Management Function cooperates in the process of defining and implementing the risk governance policies through an adequate risk management process. The person in charge is not involved in the operating activities that he/she is asked to control, and his/her duties, and the relative responsibilities, are governed by a specific internal regulation.

In addition to other tasks, the Risk Management Function is responsible for:

• cooperating with the corporate governance bodies in defining the overall risk management system and the entire reference framework relating to the assumption and control of the risks of the Group (Risk Appetite Framework);
• establishing adequate risk management processes through the adoption and maintenance of suitable risk management systems, in order to map, measure, control or mitigate all relevant risks;
• providing an assessment of the capital absorbed, also under stress conditions, and the relative adequacy, by defining processes and procedures to meet every type of present and future risk, which take into account strategies and context changes;

• overseeing the implementation of the risk management process and ascertaining that it is being complied with;
• monitoring the adequacy and effectiveness of the actions taken to resolve any weaknesses found in the risk management system;
• submitting periodical reports to the corporate governance bodies on the activities carried out and providing them with consulting support on risk management issues.

SECTION 1 – GROUP RISKS

1.1 Credit risks

Qualitative information

1. General issues

Factoring activities, disciplined by the Italian Civil Code (Book IV – Chapter V, Articles 1260–1267) and Law No. 52 of February 21, 1991 and subsequent laws, consist of a plurality of financial services that can be structured in various ways through the sale of trade receivables on a recourse or non-recourse basis.
A particular characteristic of factoring transactions is the involvement of three different parties:
• Factor (assignee);
• Customer (assignor);
• Debtor (assigned).

2. Credit risk management policies

2.1 Organizational issues
In view of the above considerations, the assessment of a factoring transaction must be conducted through the analysis of a number of factors, ranging from the degree of risk fragmentation to the characteristics of the commercial transaction underlying the credit quality, from the reimbursement ability of the customer assignor to the solvency of the assigned debtors.
The monitoring and management of credit risk starts with a preliminary review of the credit line application, before a factoring service is offered. The various corporate functions collaborate with maximum synergy to provide analytical and subjective assessments of the counterparties, both from a quantitative (current, past and future economic conditions) and qualitative (managerial ability, competitiveness, product prospects and potential credit volumes to be managed) standpoint.
The guidelines and procedures to monitor and control credit risk are set forth in the current "Credit Regulation," approved by the Board of Directors on September 10, 2015. A further organizational safeguard against credit risk is provided by the internal regulation for monitoring credit quality, which describes the credit control process on the debtor and is an integral part of the "Credit Regulation".
Credit risk is therefore adequately safeguarded at various levels within the framework of the multiple operating processes.

2.2 Management, measurement and control systems

The assessment of credit risk is part of an overall analysis of the adequacy of the Group's capital in relation to the risks connected with lending.

With this in mind, the Group uses the "standardized" approach to measure credit risk, as required by the Bank of Italy in Circular No. 285 *"Oversight provisions for banks"* and Circular No. 286 *"Instructions for the preparation of supervisory reporting by banks and securities intermediaries"*, both dated December 17, 2013, and subsequent updates. This approach involves the classification of exposures into different classes (portfolios), depending on the type of counterparty and the application of diversified weighted ratios to each portfolio.

In particular, the Group applies the following weighting factors defined by EU Regulation No. 575/2013, Capital Requirements Regulation (CRR):

• 0% for receivables from central administrations and central banks with offices in a European Union member state and financed in the local currency;
• 20% for receivables from territorial entities located in a European Union member state, denominated and financed in the local currency, and for receivables from the Public Administration of countries in Credit Quality Class 1.
The non-recourse receivables from the Spanish Healthcare System fall into this category because the counterparties of these exposures are represented by the "Comunidad" (the Regions).
• 50% for receivables from the Public Administration of countries in Credit Quality Class 2, which include the exposures with entities of the Polish and Slovakian public sector and, up until December 31, 2016, those of the Italian Public Administration. 100% for countries in Credit Quality Class 3 (Italy, starting from 2017, and Portugal). For exposures with an original duration of three months or less, a weighting of 20% is applied;
• 50% or 100% for receivables from supervised intermediaries according to the Credit Quality Class of the country in which they have their offices, except for exposures with an original duration of three months or less, for which a weighting of 20% is applied;
• 75% for receivables from retail and small business counterparties;
• 100% for receivables from private debtors;
• 100% for property, plant and equipment, equity investments, investment funds and other assets;
• 150% for past due loans;
• 100% for past due loans, if the specific value adjustments are 20% or more of the non-collateralized portion, before value adjustments.

BFF adopted the ECAI Dominion Bond Rating Service (DBRS). The unsolicited rating assigned to the Italian Republic by DBRS, on January 13, 2017, went from "A low" to "BBB high" and, consequently, the country was downgraded from Credit Quality Class 2 to Credit Quality Class 3.

The exposures for receivables from the Italian Public Administration, which include those from entities belonging to the National Healthcare System and from the Local Healthcare Entities (ASL), therefore, starting from the March 2017 supervisory reporting, will be rated in Credit Quality Class 3, with a 100% weighting, compared to 50% adopted up to December 31, 2016.

The Group is already taking steps to generate capital to meet the capital requirement needs deriving from the impacts of the aforementioned downgrade.

The exposures of the Group principally represent exposures with counterparties of the Public Administration or healthcare entities of the countries in which the Group operates.

The Group constantly maintains, as a capital requirement covering credit risk, an amount of regulatory capital equal to at least 8% of the weighted exposures for credit risk.

Capital requirement = 8% RWA

The Risk Weighted Amount (RWA) is determined by the sum of the risk weighted assets of the various classes.
In keeping with the requirements of EU Regulation No. 575/2013 (CRR), moreover, in the scope of consolidation used exclusively for prudential supervisory purposes, BFF Luxembourg S.à r.l. is the parent company. In addition, starting from the reporting at June 30, 2016, the scope of consolidation also includes Magellan, the company acquired by Banca Farmafactoring.
Based on the method described above, the capital requirement covering credit risk at December 31, 2016 is €83,496 thousand.

The Group's "Credit Regulation" describes the phases that in sector regulations are identified as components of the credit process:
- background check;
- decision;
- disbursement;
- monitoring and review;
- dispute.

In order to identify the most important risk factors, the main activities carried out by the Group are described as follows:
- receivables management only;
- non-recourse factoring.

In the "receivables management only" service the credit risk is considerably reduced because it is limited to the Group's exposure with the customer for payment of the stipulated fees and commissions, or the reimbursement of legal fees incurred. The granting of a credit line for "receivables management only" follows the normal procedures used in the credit process even when the credit line can be approved by a single-person body.
"Non-recourse factoring" by its very nature represents the service that is most exposed to credit risk. For this reason, the background check for the credit line application is carried out with the utmost care and the decision-making power is reserved for designate approval bodies.
"Recourse factoring" is a marginal activity for the Group since this type of factoring is only included in the Magellan product portfolio.

Consequently, the credit risk management process, in addition to following the internal company regulation, must also abide by external regulations (Bank of Italy Circulars No. 285 *"Oversight provisions for banks"* and No. 286 *"Instructions for the preparation of regulatory reporting by banks and securities intermediaries"* and subsequent updates) regarding risk concentration. More specifically:

• a "large exposure" is defined as any position equal to or greater than 10% of the eligible capital, as defined in Regulation No. 575 of 2013 (sum of Class 1 Capital and Class 2 Capital equal to or lower than one-third of Class 1 Capital). For Banca Farmafactoring, the eligible capital corresponds to Own Funds;
• for banking groups and banks not belonging to a banking group, each risk position must not be greater than 25% of eligible capital.
In view of the fact that the Group has an exposure that is almost completely comprised of receivables due from the Public Administration, the portfolio risk is thought to be limited.

Furthermore, the Group files a monthly report with the "Central Credit Register" (Bank of Italy Circular No. 139 of February 11, 1991, and subsequent updates, "Central Credit Register. Instructions for Credit Intermediaries") providing information on the financial debt trend of the debtor over the course of time and on the available/utilized ratio (which shows the financial obligations of the company and its debt margins vis-à-vis the system).

Qualitative assessment of receivables

The Group performs an impairment test on the receivables portfolio in order to identify any impairment of its financial assets.
This analysis makes it possible to differentiate between performing and non-performing receivables, including in the latter category financial assets that show an individual risk of loss, while the remaining financial assets are classified in the performing category.

Performing receivables

The assessment of performing receivables applies to those receivables from customers that, while more than 90 days past due, show no objective indication of impairment at the individual level.
This representation is consistent with the assessment criterion of receivables purchased on a non-recourse basis at "amortized cost," which, in fact, is based on discounting to present value estimated future cash flows according to an estimate of the time to collection.

Even though the receivables are owed almost exclusively by the Public Administration, as in previous years, when preparing its annual financial statements or interim reports, the Group, in accordance with the provisions of IAS 39, carries out a collective impairment test of performing receivables in order to monitor the quantitative content.

In order to determine the Loss Given Default (LGD), BFF assumed the value proposed by the "Basel Accord Framework" for unsecured receivables from sovereign states, companies and banks as being equal to 45% of the Probability of Default (PD) found.
The collective assessment of the PD was performed by assigning a rating to the debtors (ASLs/AOs), corresponding to the credit rating assigned by the major rating agencies for the particular Region to which the debtors belong. This product was then applied to the exposures not classified as non-performing Exposures At Default (EAD).
At December 31, 2016, the impairment test indicated an impairment loss of about €3.2 million.
As regards Magellan, the collective impairment is calculated, at this time, exclusively on private counterparties. In this case, Magellan carries out a writedown of the portfolio by applying to the receivable's purchase value a percentage that varies according to the type of counterparty to which

the exposure refers. Magellan also assesses whether to record individual impairments by analyzing the economic and financial situation of the debtor and the actual possibility of recovering the receivable.
The impairment policies adopted by Magellan include specific periodic reports sent to BFF so that it can check the correctness of the approach adopted.

Non-performing receivables
As required by IAS 39 and for purposes of an analytical assessment, the Group carried out a review of the financial assets classified as non-performing receivables in order to identify any objective impairment of individual positions.

The Group's non-performing receivables, net of individual impairment losses, amount to €12,065 thousand, including those of Magellan of €4,872 thousand.

2.3 Credit risk mitigation techniques
In order to render receivables purchased on a non-recourse basis compatible with the derecognition principle, the risk mitigation clauses that could in some way invalidate the effective transfer of risks and benefits were eliminated from the respective contracts.

2.4 Impaired financial assets
On July 24, 2014, the European Banking Authority (EBA) published the "Final draft implementing technical standards on supervisory reporting of forbearance and non-performing exposures" (EBA/ITS/2013/03/rev 1 7/24/2014): this document introduces new definitions for impaired assets and forbearance measures.
These definitions, which were adopted by the Bank of Italy with the seventh update to Circular No. 272 of January 20, 2015, call for impaired assets to be classified into the following categories:

- Past-due exposures, for a net value of €46,167 thousand;
- Unlikely to pay for a net value of €3,614 thousand;
- Non-performing exposures, for a net value of €12,065 thousand.

Past due exposures
These are exposures with central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies that, at December 31, 2016 were more than 90 days past due.
More specifically, exposures with central administrations and central banks, public sector entities and territorial entities, are considered past due when the debtor has not made any payments for any debt positions owed to the financial intermediary for more than 90 days.

At December 31, 2016, net past due exposures total €46,167 thousand for the entire Group. With regard to BFF, these exposures amount to €45,529 thousand, including €38.8 million with the Italian Public Administration (largely with territorial entities) compared to €9.8 million at December 31, 2015. The amount relating to public companies is €6.2 million.

Past due exposures for the Magellan Group amount to €0.7 million, referring almost entirely to private counterparties.

Unlikely to pay

The "unlikely to pay" concept is used to define this type of exposure and, consequently, the probable default reflects the judgment made by the intermediary about the unlikeliness, absent such actions as the enforcement of guarantees, that the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts or installments.

Therefore, it is not necessary to wait for an explicit sign of anomaly (e.g. failure to repay) when there are factors that signal a default risk situation for the debtor. Exposures with retail customers can be classified in the probable default category at the individual transaction level, provided the intermediary believes that the conditions for classifying in this category the entire complex of exposures with same debtor cannot be met.

At December 31, 2016, exposures classified as unlikely to pay refer entirely to the Magellan portfolio and total €3.6 million, of which €3.4 million refer to public debtors.

Non-performing exposures

These are exposure with parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections recognized by the company.
At December 31, 2016, total non-performing exposures of the Group, net of writedowns for estimated impairment losses, amount to €12.1 million. Gross non-performing exposures including the provision for late-payment interest amount to €30.0 million and the relative impairment losses total €17.9 million with a coverage ratio of 59.8%.

The total non-performing receivables of BBF, net of writedowns for estimated impairment losses, are €7.2 million at December 31, 2016.

Of this amount, €492 thousand refers to local government entities that were already distressed when the receivables were purchased. Another €0.9 million is owed by Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition with creditors.

The other non-performing positions total about €8.6 million, including positions amounting to about €1.7 million that were completely written off against the provision for impairment and consequently have a zero balance. BFF's remaining positions, totaling about €6.9 million, are written down based only on the time value, as they consist of positions secured by sureties and exposures with local government entities in distress (including €492 thousand already purchased as distressed), for which no provisions were recognized, as the distressed condition is expected to be remedied resulting in the collection of 100% of the claim.
The portion of late-payment interest relating to non-performing positions, recognized when the estimate criteria were changed, in 2014, amounts to €13.6 million and was completely written off. This refers mainly to the position with Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition agreement with creditors.
As for Magellan, total non-performing exposures, net of writedowns due to estimated impairment losses of €1,950 thousand, are €4,872 thousand.

Unlike the considerations made for non-performing positions, the valuation of past-due exposures and doubtful receivables is carried out at the portfolio level, since these positions do not display objective indications of individual impairment losses.

Quantitative information

A. Credit quality

A.1 Impaired and not impaired exposures: amounts, impairment losses, changes, breakdown by business activity and region

A.1.1 Breakdown of financial assets by portfolio and credit quality (carrying amounts)

(in € thousands)

Portfolio/Quality	Non-performing	Unlikely to pay	Past due exposures	Past due exposures not impaired	Assets not impaired	Total
1. Available-for-sale financial assets					385,086	385,086
2. Held-to-maturity financial assets					1,629,320	1,629,320
3. Due from banks					144,871	144,871
4. Due from customers	12,065	3,614	46,167	398,204	2,039,044	2,499,094
5. Financial assets designated at fair value					3,401	3,401
6. Financial assets held for sale						
Total 12/31/2016	**12,065**	**3,614**	**46,167**	**398,204**	**4,201,722**	**4,661,772**
Total 12/31/2015	**2,507**	**0**	**43,234**	**386,219**	**3,224,314**	**3,656,274**

Amounts due from customers include past due not impaired receivables, pursuant to the provisions of Bank of Italy Circular No. 272 of July 30, 2008 "Account matrix", and subsequent updates, amounting to €398,204 thousand.
All purchases of non-recourse receivables refer to factoring transactions pursuant to Law No. 52/91.

A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net amounts)

(in € thousands)

Portfolio/Quality	Impaired assets			Not impaired assets			Total (net exposure)
	Gross Exposure	Specific impair. loss	Net Exposure	Gross Exposure	Portfolio impair. loss	Net Exposure	
1. Available-for-sale financial assets				385,086		385,086	385,086
2. Held-to-maturity financial assets				1,629,320		1,629,320	1,629,320
3. Due from banks				144,871		144,871	144,871
4. Due from customers	66,372	4,526	61,847	2,443,009	5,761	2,437,248	2,499,094
5. Financial assets designated at fair value				3,401		3,401	3,401
6. Financial assets held for sale							
Total 12/31/2016	**66,372**	**4,526**	**61,847**	**4,605,687**	**5,761**	**4,599,926**	**4,661,772**
Total 12/31/2015	**47,536**	**1,795**	**45,741**	**3,228,064**	**3,750**	**3,224,314**	**3,270,055**

(in € thousands)

Portfolio/Quality	Subprime assets		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading			244
2. Derivatives			529
Total 12/31/2016			**773**
Total 12/31/2015			

A.1.3 Group - On and off-balance sheet credit exposures with banks: gross, net and past due amounts

(in € thousands)

Exposure types/Amounts	Gross exposures					Specific impairment losses	Portfolio impairment losses	Net exposure
	Impaired assets				Not impair. assets			
	Up to 3 months	3 to 6 months	6 months to 1 year	Over 1 year				
A. BALANCE SHEET EXPOSURE								
a) Non-performing								
forborne exposures								
b) Unlikely to pay								
forborne exposures								
c) Past due impaired exposures								
forborne exposures								
d) Past due not impaired exposures								
forborne exposures								
e) Other not impaired exposures					144,871			144,871
forborne exposures								
TOTAL A					**144,871**			**144,871**
B. OFF-BALANCE SHEET EXPOSURE								
a) Impaired								
b) Not impaired					795			795
TOTAL B					**795**			**795**
TOTAL (A+B)					**145,666**			**145,666**

A.1.6. Group - On- and off-balance sheet credit exposures with customers: gross and net amounts and past due

(in € thousands)

Exposure types/Amounts	Gross exposures					Specific impairment losses	Portfolio impairment losses	Net exposure
	Impaired assets				Not-impaired assets			
	Up to 3 months	3 to 6 months	6 months to 1 year	Over 1 year				
A. BALANCE SHEET EXPOSURE								
a) Non-performing	4,541	247	2,023	9,596		4,342		12,065
forborne exposures								
b) Unlikely to pay	3,541	100	1	73		101		3,614
forborne exposures								
c) Past due impaired exposures	26,918	3,487	7,900	7,945		82		46,167
forborne exposures								
d) Past due not impaired exposures					394,021		777	393,244
forborne exposures								
e) Other not impaired exposures					4,063,393		4,984	4,058,409
forborne exposures								
TOTAL A	**35,001**	**3,833**	**9,924**	**17,614**	**4,457,415**	**4,526**	**5,761**	**4,513,500**
B. OFF-BALANCE SHEET EXPOSURE								
a) Impaired	716							716
b) Not impaired					127,269			127,269
TOTAL B	**716**				**127,269**			**127,986**
TOTAL (A+B)	**35,717**	**3,833**	**9,924**	**17,614**	**4,584,684**	**4,526**	**5,761**	**4,641,486**

A.1.7 Group - On-balance sheet credit exposures with customers: gross changes in impaired exposures

(in € thousands)

Sources/Categories	Non-performing	Unlikely to pay	Past due impaired exposures
A. Beginning gross impairments	**4,226**	**0**	**43,310**
- of which: receivables sold but not derecognized	914		3,769
B. Increases	**13,194**	**3,715**	**36,494**
B.1 transfer from performing exposures	5,925		33,941
B.2 transfers from other categories of impaired exposures			120
B.3 other increases	7,269	3,715	2,433
C. Decreases	**1,012**	**0**	**33,554**
C.1 transfer to performing exposures	654		6,103
C.2 derecognition			
C.3 collections	239		27,451
C.4 proceeds on sale			
C.5 losses on sale			
C.6 transfer to other categories of impaired exposures	120		
C.7 other decreases			
D. Ending gross impairments	**16,407**	**3,715**	**46,250**
- of which: receivables sold but not derecognized	4,726		16,302

Other increases include gross impaired receivables of Magellan: non-performing of €6.8 million, unlikely to pay of €3.7 million and past due impaired exposures of €739 thousand.

A.1.8 Group – On-balance sheet credit exposures with customers: changes in total impairment losses

(in € thousands)

Sources/Categories	Non-performing		Unlikely to pay		Past due impaired	
	TOTAL	Forborne exposures	TOTAL	Forborne exposures	TOTAL	Forborne exposures
A. Beginning total impairments	**1,719**		**0**		**76**	
- of which: receivables sold but not derecognized	18				7	
B. Increases	**2,703**		**101**		**66**	
B.1 impairment losses	198					
B.2 losses on sale						
B.3 transfers from other categories of impaired exposures	1,950		101			
B.4 other increases	555				66	
C. Decreases	**80**				**60**	
C.1 impairment reversals						
C.2 impairment reversals from collections	24				49	
C.3 gains on sale						
C.4 derecognition						
C.5 transfer to other categories of impaired exposures	3					
C.6 other decreases	53				10	
D. Ending total impairments	**4,342**		**101**		**82**	
- of which: receivables sold but not derecognized	169				30	

"Other increases" include the adjustments to Magellan: non-performing for €2.0 million and unlikely to pay for €0.1 million.

A.2 Classification of exposures according to external and internal ratings

A.2.1 Group - Breakdown of on- and off-balance sheet credit exposures by external rating class

(in € thousands)

Exposures	External rating classes						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. On-balance sheet exposures		**4,490,824**	**35,225**				**131,340**	**4,657,388**
B. Derivatives								
B.1 Financial derivatives	113	134	527					**773**
B.2 Credit derivatives								
C. Guarantees provided		**108**						**108**
D. Commitments to disburse funds		**6,816**					**121,170**	**127,986**
E. Other								
Total	**113**	**4,497,882**	**35,752**	**-**	**-**	**-**	**252,509**	**4,786,256**

This table includes, under "On-balance sheet exposures", the following asset items from the Group's financial statements:

• Item 40 - Available-for-sale financial assets (only debt securities), amounting to €385,086 thousand;
• item 50 - Held-to-maturity financial assets, amounting to €1,629,320 thousand;
• item 60 - Due from banks, amounting to €144,871 thousand, corresponding to the credit balances in the current accounts of BFF and Farmafactoring España S.A. at the end of the year;
• item 70 - Due from customers, amounting to €2,499,094 thousand, equal to the sum of the outstanding exposures at December 31, 2016, net of intercompany transactions.

The ratings supplied by the rating agency DBRS (the reference ECAI) were used to assign credit quality ratings to the debtors. A reconciliation between the risk classes and the ratings supplied by DBRS is provided below.

Credit Quality Class	ECAI DBRS Ratings Limited
1	from AAA to AAL
2	from AH to AL
3	from BBBH to BBBL
4	from BBH to BBL
5	from BH to BL
6	CCC

A.3 Breakdown of secured exposures by type of guarantee

A.3.2 Group - Guaranteed credit exposures with customers

(in € thousands)

		Collateral (1)					Unsecured guarantees (2)								
							Credit derivatives				Endorsement credits				
							Other derivatives								
	Net exposure value	Mortgaged property	Property with finance leases	Securities	Other collateral	CLN	Governments and Cental Banks	Other public entities	Banks	Other subjects	Governments and Cental Banks	Other public entities	Banks	Other subjects	**Total (1)+(2)**
1. Guaranteed on-balance sheet credit exposures:															
1.1 totally guaranteed	8,903	5,195	3,323										32	353	**8,903**
- impaired	32												32		**32**
1.2 partially guaranteed															
- impaired															
2. Guaranteed off balance sheet credit exposures:															
2.1 totally guaranteed															
- impaired															
2.2 partially guaranteed															
- impaired															

B. Breakdown and concentration of credit exposures

B.1 Group – Breakdown by segment of on-balance sheet and off-balance sheet credit exposures with customers (carrying amount)

(in € thousands)

Exposures/Counterparties	Governments			Other public entities		
	Net exposure	Specific impair. losses	Portfolio impair. losses	Net exposure	Specific impair. losses	Portfolio impair. losses
A. On-balance sheet exposures						
A.1 Non-performing				6,131	931	
- forborne exposures						
A.2 Unlikely to pay				3,376		
- forborne exposures						
A.3 Past due impaired exposures	4,662	9		34,136	63	
- forborne exposures						
A.4 Not impaired exposures	2,423,898		755	1,782,764		4,174
- forborne exposures						
TOTAL A	**2,428,560**	**9**	**755**	**1,826,408**	**994**	**4,174**
B. Off-balance sheet exposures						
B.1 Non-performing						
B.2 Unlikely to pay						
B.3 Other impaired exposures	6			676		
B.4 Not impaired exposures	1,775			34,873		
TOTAL B	**1,780**	-	-	**35,550**	-	-
TOTAL (A+B) 12/31/2016	**2,430,340**	**9**	**755**	**1,861,957**	**994**	**4,174**
TOTAL (A+B) 12/31/2015	**1,541,235**	-	**499**	**1,613,772**	**468**	**3,225**

(in € thousands)

Exposures/Counterparties	Financial companies			Insurance companies		
	Net exposure	Specific impair. losses	Portfolio impair. losses	Net exposure	Specific impair. losses	Portfolio impair. losses
A. On-balance sheet exposures						
A.1 Non-performing	312	296				
- forborne exposures						
A.2 Unlikely to pay						
- forborne exposures						
A.3 Past due impaired exposures	341					
- forborne exposures						
A.4 Not impaired exposures	117,790		604			
- forborne exposures						
TOTAL A	**118,444**	**296**	**604**	-	-	-
B. Off-balance sheet exposures						
B.1 Non-performing						
B.2 Unlikely to pay						
B.3 Other impaired exposures						
B.4 Not impaired exposures						
TOTAL B	-	-	-	-	-	-
TOTAL (A+B) 12/31/2016	**118,444**	**296**	**604**	-	-	-
TOTAL (A+B) 12/31/2015	**28,932**	-	-	-	-	-

(in € thousands)

Exposures/Counterparties	Non-financial companies			Other subjects		
	Net exposure	Specific impair. losses	Portfolio impair. losses	Net exposure	Specific impair. losses	Portfolio impair. losses
A. On-balance sheet exposures						
A.1 Non-performing	33	853		5,589	2,262	
- forborne exposures						
A.2 Unlikely to pay				237	101	
- forborne exposures						
A.3 Past due impaired exposures	6,497	11		532	0	
- forborne exposures						
A.4 Not impaired exposures	29,460		32	97,740		195
- forborne exposures						
TOTAL A	**35,990**	**864**	**32**	**104,099**	**2,364**	**195**
B. Off-balance sheet exposures						
B.1 Non-performing						
B.2 Unlikely to pay						
B.3 Other impaired exposures	34					
B.4 Not impaired exposures	90,622					
TOTAL B	**90,656**	-	-	-	-	-
TOTAL (A+B) 12/31/2016	**126,646**	**864**	**32**	**104,099**	**2,364**	**195**
TOTAL (A+B) 12/31/2015	**131,438**	**909**	**8**	**16,361**	**418**	**18**

B.2 Group – Breakdown by geographical area of on-balance sheet and off-balance sheet credit exposures with customers (carrying amount)

(in € thousands)

Exposures/ Geographical area	Italy		Other European countries	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses
A. On balance sheet exposures				
A.1 Non-performing	7,194	2,392	4,872	1,950
A.2 Unlikely to pay			3,614	101
A.3 Past due impaired	45,429	82	739	
A.4 Not impaired exposures	3,824,180	3,409	627,474	2,352
TOTAL	**3,876,802**	**5,883**	**636,698**	**4,404**
B. Off-balance sheet exposures				
B.1 Non-performing				
B.2 Unlikely to pay				
B.3 Past due impaired	716			
B.4 Not impaired exposures	6,100		121,170	
TOTAL	**6,816**	-	**121,170**	-
TOTAL 12/31/2016	**3,883,618**	**5,883**	**757,867**	**4,404**
TOTAL 12/31/2015	**3,110,377**	**5,496**	**221,361**	**50**

(in € thousands)

Exposures/ Geographical area	Italy Northwest		Italy Northeast		Italy Central		Italy-South and Islands	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses
A. On balance sheet exposures								
A.1 Non-performing	905	355	176	78	322	1,159	5,988	800
A.2 Unlikely to pay								
A.3 Past due impaired	4,275	8	1,772	3	5,333	10	34,049	61
A.4 Not impaired exposures	205,990	358	92,641	171	2,788,746	1,232	736,802	1,648
TOTAL	**211,171**	**721**	**94,588**	**253**	**2,794,401**	**2,401**	**776,840**	**2,509**
B. Off-balance sheet exposures								
B.1 Non-performing								
B.2 Unlikely to pay								
B.3 Past due impaired	573				38		105	
B.4 Not impaired exposures	659		1,427		2,001		2,013	
TOTAL	**1,233**		**1,427**		**2,038**		**2,118**	
TOTAL 12/31/2016	**212,403**	**721**	**96,015**	**253**	**2,796,440**	**2,401**	**778,958**	**2,509**
TOTAL 12/31/2015	**174,575**	**622**	**87,416**	**198**	**1,989,217**	**2,808**	**859,180**	**1,867**

B.3 Group – Breakdown by geographical area of on-balance sheet and off-balance sheet credit exposures with banks (carrying amount)

(in € thousands)

Exposures/ Geographical area	Italy		Other European countries	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses
A. On balance sheet exposures				
A.1 Non-performing				
A.2 Unlikely to pay				
A.3 Past due impaired				
A.4 Not impaired exposures	130,381		14,490	
TOTAL	**130,381**		**14,490**	
B. Off-balance sheet exposures				
B.1 Non-performing				
B.2 Unlikely to pay				
B.3 Past due impaired				
B.4 Not impaired exposures	22		773	
TOTAL	**22**	**-**	**773**	**-**
TOTAL 12/31/2016	**130,403**	**-**	**15,264**	**-**
TOTAL 12/31/2015	**55,393**	**-**	**385**	**-**

(in € thousands)

Exposures/ Geographical area	Italy Northwest		Italy Northeast		Italy Central		Italy-South and Islands	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses
A. On balance sheet exposures								
A.1 Non-performing								
A.2 Unlikely to pay								
A.3 Past due impaired								
A.4 Not impaired exposures	73,774		20,793		523		35,291	
TOTAL	**73,774**		**20,793**		**523**		**35,291**	
B. Off-balance sheet exposures								
B.1 Non-performing								
B.2 Unlikely to pay								
B.3 Past due impaired								
B.4 Not impaired exposures					22			
TOTAL					**22**			
TOTAL 12/31/2016	**73,774**		**20,793**		**545**		**35,291**	
TOTAL 12/31/2015	**51,495**		**1,909**		**1,389**		**600**	

B.4 Large exposures

At December 31, 2016, there were 14 "large exposures" meaning-as specified in the Bank of Italy Circular No. 263 of December 27, 2006 "New prudential supervision regulations for banks" and subsequent updates-risk positions equal to or higher than 10% of eligible capital which, for the Group, corresponds to Own Funds.
The nominal unweighted amount of these positions was €4,512,805 thousand, while the weighted positions amounted to €257,451 thousand.
However, none of these positions exceed the individual concentration limit of 25% of eligible capital of the Bank.

C. Securitization transactions

This section presents "qualitative" and "quantitative" information about transactions for the securitization and asset sale activities of BFF and Group.

C.1 Securitization transactions

Information on the transaction with "Deutsche Bank A.G. – Farmafactoring SPV I S.r.l."

Qualitative information

Strategies, processes and objectives

The securitization transaction with the Deutsche Bank Group for €85 million was renewed in August 2016. This transaction, which involves the non-recourse sale of receivables owed by Local Healthcare Entities (ASL) and Hospital Companies (AO), was carried out with the aim of diversifying funding activities.

Characteristics of the transaction

Pursuant to Law No. 130/99, the receivables were sold to an SPV, i.e., Farmafactoring SPV I S.r.l., which financed the purchase of the receivables by issuing securities for €85 million, underwritten by Deutsche Bank A.G..
The renewed structure, after an amortization period that ended on the note payment date of August 25, 2016 (which made it possible to reduce the amount of the securities issued from the original €150 million to the current €85 million), provides for a new revolving period valid until July 31, 2017, during which revolving sales will be made against collections of receivables to maintain the contractually stipulated collateralization ratio.
The late-payment interest collected by the SPV is paid to the Bank, based on available cash, when either the sale and/or requests for payment of collections of receivables sold to the SPV are higher than the overcollateralization ratio established by contract.
At the end of the revolving period there will be a two and a half years amortization period correlated to the performance of existing receivables collection during which the securities will be repaid.

Description of the risk profile

BFF, as the originator, maintains a role in the securitization transaction, even though it sells the receivables on a non-recourse basis.
This transaction calls for a credit enhancement mechanism through an overcollateralization ratio (equal to 137.93% of the amount of the securities issued) and a subordinated loan carried by BFF.
Following the renewal, the Bank as the assignor, and the SPV, as the issuer, could have:
(i) early terminated the revolving phase at any time up to the January 2017 payment date (by sending the relative communication by December 31, 2016) or, and only as regards BFF,
(ii) terminate the program by buying back all the outstanding receivables by the January 2017 payment date during the revolving phase (by sending the relative communication by December 31, 2016), or at any time during the amortization period.

Neither solution provides for the payment of any consideration to the SPV. Consequently, BFF may decide to start the amortization phase in relation to the repayment of the securities or directly repay the notes through the buyback of the remaining portfolio. Early termination has not been requested.

At the end of the transaction, subsequent to the repayment of the securities and other senior transaction expenses, all the remaining amounts from the collection of the receivables sold, including late-payment interest, will belong to BFF, in its capacity as underwriter of the subordinated loan.
Because of this condition, together with BFF's right to buy back and/or substitute the receivables at any time, all of the risks and benefits of the transaction were not transferred to the assignee but remained with BFF. Consequently, the securitization risk is included in the credit risk.

Quantitative information

Types of financial instruments held

BFF does not hold any financial instruments connected with the abovementioned transaction.

Sub-servicer activity

BFF, in its capacity as collection agent, handles receivable recovery and collection activities on behalf of the servicer Zenith Service S.p.A..
Following the sales of receivables made to the SPV Farmafactoring SPV I S.r.l., the face amount of the outstanding receivables totaled about €140 million at December 31, 2016.

C.1 Banking Group - Exposure arising from the main "in-house" securitization transactions by type of securitized asset and by type of exposure

(in € thousands)

Types of securitized assets/Exposures	On-balance sheet exposure						Guarantees provided						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amt.	Impair. loss/rev.	Carrying amt.	Impair. loss/rev.	Carrying amt.	Impair. loss/rev.	Carrying amt.	Impair. loss/rev.	Carrying amt.	Impair. loss/rev.	Carrying amt.	Impair. loss/rev.	Carrying amt.	Impair. loss/rev.	Carrying amt.	Impair. loss/rev.	Carrying amt.	Impair. loss/rev.
A. Full derecognition																		
B. Partial derecognition																		
C. Not derecognized	**30,923**	**153**																
C.1 Farmafactoring SPV I																		
- Factoring	30,923	153																

C.3 Group – Interests in securitization SPVs

(in € thousands)

Securitization name/ SPV company	Head Office	Consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other	Senior	Mezzan.	Junior
Farmafactoring SPV I S.r.l.	Milano - Via Statuto, 10	Full	204,796		20	85,000		

E. Sales transactions

A. Financial assets sold and not fully derecognized

Quantitative information

The disclosure required by IFRS 7, Paragraph 42D, Letters a), b) and c), regarding the nature of the transferred assets, the relationship between them and the associated liabilities and corresponding risks to which BFF is exposed, is provided below.

As previously described, at December 31, 2016 there is a transaction still outstanding that was structured with Deutsche Bank on healthcare receivables that were sold but not derecognized since all the risks and rewards of ownership were not transferred upon sale.
The value of the receivables sold and not derecognized amounts to €137,380 thousand.
The other amounts in "Due from customers", for a total of €332,168 thousand, refer to the receivables pledged as collateral for the financial transactions with Ifitalia and Unicredit Factoring and €160,476 for the loans taken out by Magellan.

The counterparty in the reverse repurchase agreements, amounting to €1,811 million, is Cassa di Compensazione e Garanzia. These transactions were executed to refinance the BFF's securities portfolio.

Qualitative information

E.1 Group – Financial assets sold but not derecognized: carrying amount and total amount

(in € thousands)

	Financial assets held for trading			Financial assets designat. at fair value			Available-for-sale financial assets			Held-to-maturity financial assets			Due from banks			Due from customers			Total	
Type/Portfolio	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31.12.2016	31.12.2015
A. On balance sheet assets							**185,165**			**1,623,209**						**630,025**			**2,438,399**	**1,563,632**
1. Debt securities							185,165			1,623,209									**1,808,374**	**917,117**
2. Equity securities																				
3. Units in investments funds																				
4. Loans																630,025			**630,025**	**651,515**
B. Derivative instruments																				
Total 12/31/2016							**185,165**			**1,623,209**						**630,025**			**2,438,399**	
of which impaired																20,829			20,829	
Total 12/31/2015							**94,767**			**822,350**						**651,515**				**1,568,632**
of which impaired																4,658				4,658

Key:
A = financial assets sold and fully recognized (carrying amount)
B = financial assets sold and partially recognized (carrying amount)
C = financial assets sold and partially recognized (total amount)

E.2 Group – Financial liabilities related to financial assets sold but not derecognized: carrying amount

(in € thousands)

Liabilities/ Assets portfolio	Financial assets held for trading	Financial assets designated at fair value	Available-for-sale financial assets	Held-to-maturity financial assets	Due from banks	Due from customers	**Total**
1. Due to customers			**185,069**	**1,599,883**		**337,821**	**2,122,773**
a) related to assets fully recognized			185,069	1,599,883		337,821	**2,122,773**
b) related to assets partially recognized							
2. Due to banks						**86,319**	**86,319**
a) related to assets fully recognized						86,319	**86,319**
b) related to assets partially recognized							
3. Debt securities issued							
a) related to assets fully recognized							
b) related to assets partially recognized							
Total 12/31/2016			**185,069**	**1,599,883**		**424,140**	**2,209,092**
Total 12/31/2015			**94,694**	**825,777**		**412,660**	**1,333,131**

F. Group - Models for measuring credit risk

1.2 Group – Market risks

1.2.1 Interest rate risk and price risk – Regulatory trading portfolio

Qualitative information

A. General remarks

The interest rate risk is represented by fluctuations in the level of market interest rates that may generate adverse effects on the company's income statement. The Group's lending activities, represented by receivables purchased on a non-recourse basis, are at fixed rates, whereas funding is generally at variable rates. The exposure is given by the amount of financing subject to this risk.
With regard to Magellan, the portfolio is mainly represented by variable rate exposures (about 60% of the assets).

The amount of derivative instruments executed to mitigate the risk of fluctuations in interest rates is determined so that a part of the funding originally at variable rates can be changed to fixed rates, correlating the amount of the hedging to the portion of funding used to finance the lending made at fixed rates. In this sense, consideration is given to the exposure of the receivables purchased, purchases in progress, the fixed rate implicit in the fees and commissions and the correlated exposure flows, so as to achieve a matching of the hedged item (fixed rate on the outstanding balance) and the contractual rate on all derivative transactions.

Quantitative information

1. Regulatory trading portfolio: breakdown by residual duration (repricing date) of financial assets and liabilities on the balance sheet and financial derivatives

Currency: EURO *(in € thousands)*

Type/Residual maturity	on demand	up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	over 10 years	unspecif. maturity
1. Balance sheet assets								
1.1 Debt securities								
- with prepayment option								
- other								
1.2 Other assets								
2. Balance sheet liabilities								
2.1 Repo liabilities								
2.2 Other liabilities								
3. Financial derivatives		**22,579**	**100**	**14,000**	**6,500**			
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security		22,579	100	14,000	6,500			
- Options								
+ long positions								
+ short positions								
- Other derivatives		22,579	100	14,000	6,500			
+ long positions		*22,579*	*100*	*14,000*	*6,500*			
+ short positions								

Currency: OTHER *(in € thousands)*

Type/Residual maturity	on demand	up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	over 10 years	unspecif. maturity
1. Balance sheet assets								
1.1 Debt securities								
- with prepayment option								
- other								
1.2 Other assets								
2. Balance sheet liabilities								
2.1 Repo liabilities								
2.2 Other liabilities								
3. Financial derivatives		**22,626**	**4,635**	**18,828**	**6,694**			
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security		22,626	4,636	18,828	6,694			
- Options								
+ long positions								
+ short positions								
- Other derivatives		22,626	4,636	18,828	6,694			
+ long positions				*4,535*				
+ short positions		*22,626*	*4,636*	*14,293*	*6,694*			

1.2.2 Interest rate risk and price risk – Banking portfolio

Qualitative information

A. General issues, operational procedures and methods for measuring interest rate risk and price risk

For assessing interest rate risk, the Group follows the method set forth in the prudential regulations (Annex C – Bank of Italy Circular No. 285). This method is applied monthly, in order to detect on a timely and ongoing basis any loss resulting from a market shock determined based on the annual changes in interest rates recorded during an observation period of six years, considering alternatively the first percentile (reduction) or the 99th percentile (increase) and ensuring that rates are not negative.

The sensitivity analysis of the interest rate requires the construction of a management framework that makes it possible to highlight the exposure, represented:
• on the liability side, by the total amount of loans revalued in relation to the maturity of the single utilization tranches and the derivative exposure and by funding derived from Conto Facto and from the placement of bonds;
• on the asset side, by lending represented by exposure from the purchase of non-recourse receivables, the collection of which is estimated using statistics of debtor payment times, adjusted for any settlement agreements with the individual regions and/or with significant debtors, or adjusted as a result of asset sale or by investments in the government securities portfolio.

The method used calls for:
• classification of the assets and liabilities into different periods: the allocation to different periods is made, for fixed-rate assets and liabilities, based on their residual lives; for variable-rate assets and liabilities, based on the interest rate renegotiation date;
• weighting of the net exposures within each period: asset positions and liability positions within each period are offset, obtaining a net position. Each net position, for each period, is multiplied by the weighting factors, obtained as the product of a hypothetical variation in rates and an approximation of the modified duration for each single period;
• sum of the weighted exposures of the different periods: the weighted exposures of the different periods are added, obtaining a total weighted exposure.

The total weighted exposure represents the change in the present value of cash flows, generated by the hypothetical interest rate scenario.
The Group regularly monitors interest rate risk, as well its management, through a specific reporting.

The assumption of interest rate risk in connection with BFF's funding activity can only occur in compliance with the policies and limits set by the Board of Directors. It is governed by specific powers delegated in this area, which set independence limitations for the parties authorized to operate in the Finance Department.
The corporate functions responsible for ensuring the proper management of interest rate risk are the Finance Department, the Risk Management Function and senior management, which annually submits to the Board of Directors proposals for lending and funding policies and interest rate risk

management and recommends, if necessary, any opportune actions to ensure that business is carried out consistently with the risk management policies approved by BFF.
The interest rate risk position is reported on a quarterly basis to BFF's senior management and Board of Directors, in accordance with the procedures established by the Risk Management Function for senior management.
Furthermore, at the operational level, on a monthly basis, the Finance Department monitors the interest rate risk, as well its management, through a specific reporting.

B. Fair value hedging activities

BFF executed foreign exchange swap contracts to hedge intragroup loans (between Banca Farmafactoring and Magellan), entered into in 2016 in Polish currency (zloty) and in Czech currency (koruna), from changes in fair value arising from fluctuations in the euro-zloty and euro-koruna exchange rates.
There are also foreign exchange contracts designed to hedge the principal on the bonds issued by Magellan (to be repaid in euros), executed during 2016, from fair value changes arising from fluctuations in the exchange rate.
Foreign exchange swap agreements were executed to hedge the principal and interest on the bonds issued by Magellan (to be repaid in euros) from the fair value changes arising from fluctuations in the euro-zloty exchange rate.
The Group executed three foreign exchange swap contracts executed to hedge intragroup loans (between Banca Farmafactoring and Magellan) entered into 2016 in Polish currency (zloty) and in Czech currency (koruna) from changes in fair value arising from fluctuations in the euro-zloty and euro-koruna exchange rates.

C. Cash flow hedging activities

Contracts outstanding (in € units):

	Underlyings Interest rates and debt securities			
	Notional amount	*Market fair value at* 12/31/2016 Euro		Residual life in days
Type of transaction		Positive	Negative	
IRS plain vanilla	355,065,590	2,325,173		881
Total PLN	355,065,590	2,325,173		881
Amount in Euro	80,331,582	527,214		**881**

Hedging transactions are aimed at neutralizing potential losses attributable to specific types of risks.
BFF uses interest rate swaps (IRS) as tools to hedge the interest rate applied to its funding.
Like all derivatives, hedging financial derivatives are initially recognized at fair value and subsequently measured at fair value.
When a financial instrument is designated as a hedge, BFF formally documents the relationship between the hedging instrument and the hedged item.

Changes in the fair value of derivatives are recognized based on evidence provided by retrospective tests at the reporting date through a one-to-one correlation of derivatives to loans and in keeping with the provisions of IAS 39 (documentation of the hedge and effectiveness test of the derivative).

The provisions of IAS 39 require:
• documenting both the hedged item and the hedging instrument;
• carrying out retrospective quantitative tests to determine the effectiveness of the hedge.

Effectiveness tests are carried out by comparing changes in the fair value of the hedging instrument with those of the hypothetical derivative. The hypothetical derivative is a derivative with technical financial characteristics equal to those of the hedged item and initial fair value equal to zero and is defined in such a way as to represent the perfect hedge.

At each reporting date, retrospective tests are performed that produce the ratio between the differences in fair value between the hedging instrument and the hypothetical derivative. If the ratio of the retrospective tests is between a range of 80% and 125%, the hedge is effective; in the opposite case, the derivative is classified "for trading".

The changes in the fair value of the derivative are therefore recognized:

• through equity, if the test is effective (up to 100%). If the hedging relationship always remains effective, at the expiry of the transaction (maturity of the derivative and the loan) the equity reserve is used up without any impact on the income statement;
• through profit or loss, if the test is effective but for a value other than 100% for the fair value difference between 100% and the percentage resulting from the effectiveness test;
• fully through profit or loss, if the hedge is ineffective (below 80% or higher than 125%).

Quantitative information

1. Banking portfolio: breakdown by residual duration (by repricing date) of financial assets and liabilities

Currency: EURO *(in € thousands)*

Type/Residual maturity	on demand	up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	over 10 years	unspecif. maturity
1. Balance sheet assets	**709,267**	**421,921**	**1,143,632**	**711,065**	**1,177,563**	**20,743**	**20,388**	
1.1 Debt securities		270,537	885,010	358,844	500,013			
- *with early repayment option*								
- *other*		*270,537*	*885,010*	*358,844*	*500,013*			
1.2 Loans to banks	133,224	5,174						
1.3 Loans to customers	576,043	146,210	258,622	352,221	677,550	20,743	20,388	
- *current account*	*0*							
- *other loans*	*576,043*	*146,210*	*258,622*	*352,221*	*677,550*	*20,743*	*20,388*	
- *with early repayment option*								
- *other*	*576,043*	*146,210*	*258,622*	*352,221*	*677,550*	*20,743*	*20,388*	
2. Balance sheet liabilities	**343,242**	**1,810,615**	**709,604**	**866,501**	**421,896**			
2.1 Due to customers	198,136	1,718,615	337,827	511,268	159,604			
- *current account*	*38,163*	*221,523*	*162,995*	*241,035*	*159,604*			
- *other liabilities*	*159,973*	*1,497,092*	*174,832*	*270,233*				
- *with early repayment option*								
- *other*	*159,973*	*1,497,092*	*174,832*	*270,233*				
2.2 Due to banks	145,106	92,000	67,500	105,000	113,231			
- *current account*								
- *other liabilities*	*145,106*	*92,000*	*67,500*	*105,000*	*113,231*			
2.3 Debt securities			304,277	85,000	149,061			
- *with early repayment option*								
- *other*			*304,277*	*85,000*	*149,061*			
2.4 Other liabilities								
- *with early repayment option*								
- *other*								
3. Financial derivatives		**75,233**						
3.1 With underlying security								
- Options								
+ *long positions*								
+ *short positions*								
- Other derivatives								
+ *long positions*								
+ *short positions*								
3.2 Without underlying security		75,233						
- Options								
+ *long positions*								
+ *short positions*								
- Other derivatives		75,233						
+ *long positions*		*75,233*						
+ *short positions*								
4. Off-balance sheet transactions								
+ *long positions*								
+ *short positions*								

Currency: OTHER *(in € thousands)*

Type/Residual maturity	on demand	up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	over 10 years	unspecif. maturity
1. Balance sheet assets	**29,717**	**117,306**	**52,407**	**155,790**	**98,568**			
1.1 Debt securities								
- with early repayment option								
- other								
1.2 Loans to banks	6,472							
1.3 Loans to customers	23,246	117,306	52,407	155,790	98,568			
- current account								
- other loans	*23,246*	*117,306*	*52,407*	*155,790*	*98,568*			
- with early repayment option								
- other	*23,246*	*117,306*	*52,407*	*155,790*	*98,568*			
2. Balance sheet liabilities		**146,829**	**104,931**	**13,015**				
2.1 Due to customers		5,686	51,176					**13,829**
- current account								13,829
- other liabilities		*5,686*	*51,176*					
- with early repayment option								*13,829*
- other		*5,686*	*51,176*					
2.2 Due to banks		111,969						*13,829*
- current account		*4,485*						
- other liabilities		*107,484*						
2.3 Debt securities		29,174	53,755	13,015				
- with early repayment option								
- other								
2.4 Other liabilities		*29,174*	*53,755*	*13,015*				
- with early repayment option								
- other								
3. Financial derivatives		**155,719**			**80,486**			
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security		155,719			80,486			
- Options								
+ long positions								
+ short positions								
- Other derivatives		155,719			80,486			
+ long positions		*80,486*						
+ short positions		*75,233*			*80,846*			
4. Off-balance sheet transactions								
+ long positions								
+ short positions								

1.2.3 Exchange rate risk

Qualitative information

A. General issues, operational processes and methods for measuring exchange rate risk and price risk

Exchange rate risk is represented by the Group's exposure to fluctuations in exchange rates, considering both positions in foreign currency and those that call for indexation clauses linked to changes in the exchange rate of a specific currency.

The Group's asset portfolio at December 31, 2016 is denominated as follows:
- euro;
- Polish zloty;
- Czech koruna.

The Group thus manages and monitors the risk of fluctuations in exchange rates. The Group has a specific internal regulation for the management of exchange risk referring to exposures from the management of assets, funding transactions, the purchase or sale of financial instruments in foreign currency and any other type of transaction in a currency other than the reference currency. More to the point, the Group uses specific hedging instruments in order to mitigate exchange rate risk.

B. Hedging of exchange rate risk

Exchange rate risk is hedged by instruments that are linear and without optional components such as forex swaps and forex forwards. These offer the Group an adequate hedge of exchange rate risk on the loans in foreign currency extended to the subsidiaries that operate in currencies other than the euro.
The Group companies use the same instruments noted above to hedge exchange rate risk, after checking with BFF.

Quantitative information

The Group's asset portfolio is denominated in currencies other than the euro. Consequently, a method has been adopted to measure and manage this risk. The exchange rate risk is monitored by the Risk Management Function in accordance with European regulation guidelines (EU Regulation No. 575/2013, CRR).

1. Breakdown of the assets, liabilities and derivative instruments by currency

(in € thousands)

	Currency					
Items	U.S. dollar	British pound	Japanese yen	Canadian dollar	Swiss franc	Other currency
A. Financial assets						**356,637**
A.1 Debt securities						
A.2 Equity securities						
A.3 Loans to banks						55
A.4 Loans to customers						356,582
A.5 Other financial assets						
B. Other assets						**14,569**
C. Financial liabilities						**234,512**
C.1 Due to banks						80,508
C.2 Due to customers						
C.3 Debt securities issued						67,096
C.4 Other financial liabilities						86,908
D. Other liabilities						**19,193**
E. Financial derivatives						**118,902**
- Options						
+ long positions						
+ short positions						
- Other derivatives						118,902
+ long positions						
+ short positions						*118,902*
Total assets						**371,205**
Total liabilities						**372,607**
Difference (+/-)						**(1,401)**

1.2.4 Derivatives

A. Financial derivatives

A.1 Regulatory trading portfolio: year-end notional amounts

(in € thousands)

Underlying assets/ Derivative type	Total 12/31/2016		Total 12/31/2015	
	Over the counter	Clearing house	Over the counter	Clearing house
1. Debt securities and interest rates	4,535			
a) Options				
b) Swaps	4,535			
c) Forwards				
d) Futures				
e) Other				
2. Equity securities and share indexes				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
3. Currencies and gold	43,666			
a) Options				
b) Swaps	43,666			
c) Forwards				
d) Futures				
e) Other				
4. Commodities				
5. Other underlyings				
Total	**48,200**			

A.2 Banking portfolio: year-end notional amounts

A.2.1 Hedging derivatives

(in € thousands)

Underlying assets/ Derivative type	Total 12/31/2016		Total 12/31/2015	
	Over the counter	Clearing house	Over the counter	Clearing house
1. Debt securities and interest rates	80,486			
a) Options				
b) Swaps	80,486			
c) Forwards				
d) Futures				
e) Other				
2. Equity securities and share indexes				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
3. Currencies and gold	75,233			
a) Options				
b) Swaps	75,233			
c) Forwards				
d) Futures				
e) Other				
4. Commodities				
5. Other underlyings				
Total	155,719			

A.3 Financial derivatives: positive fair value – breakdown by product

(in € thousands)

Portfolios/Derivative types	Positive fair value			
	Total 12/31/2016		Total 12/31/2015	
	Over the counter	Clearing house	Over the counter	Clearing house
A. Regulatory trading portfolio				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other	244			
B. Banking portfolio - hedging derivatives				
a) Options				
b) Interest rate swaps	527			
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other	2			
C. Banking portfolio - other derivatives				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**774**			

A.4 Financial derivatives: negative fair value – breakdown by product

(in € thousands)

Portfolios/Derivative types	Negative fair value			
	Total 12/31/2016		Total 12/31/2015	
	Over the counter	Clearing house	Over the counter	Clearing house
A. Regulatory trading portfolio				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other	7			
B. Banking portfolio - hedging derivatives				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other	176			
C. Banking portfolio - other derivatives				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**183**			

1.3 Group – Liquidity risk

Qualitative information

A. General issues, operational processes and methods for measuring liquidity risk

Liquidity risk is represented by the possibility that the Group may not be able to fulfil its payment obligations due to the inability to access funding in the financial markets, or because of restrictions on the disposal of assets. This risk is also represented by the inability to raise adequate new financial resources, in terms of amount and cost, according to operating needs, which would force the Group to slow or halt the development of activities or sustain excessive funding costs to meet its obligations, with significant adverse impacts on the profitability of its operations.

Liquidity risk may be incurred through the following risk components:
• ***Liquidity Mismatch Risk***, which it is the risk of a mismatch between the amounts and/or timing of inflows and outflows.
• ***Liquidity Contingency Risk***, which is the risk that future unexpected events may require a materially larger amount of liquidity than the business currently requires in a normal going concern scenario. This risk may be generated by such events as the failure to renew loans, the need to finance new activities, the difficulty in disposing of liquid assets or obtaining new loans in the event of a liquidity crisis.
• ***Market Liquidity Risk***, which is the risk of incurring losses on liquidating assets that would be considered liquid under normal market conditions, or the seller is forced to keep those assets in the absence of a market for them.
• ***Operational Liquidity Risk***, which is the risk of being unable to fulfill payment obligations due to errors, violations, interruptions or damages caused by internal processes, persons or external events, while remaining solvent.
• ***Funding Risk***, which is the risk of incurring a loss due to the inability to access sources of financing at an affordable cost to meet obligations and/or a possible increase in the costs of funding due to a change in rating (internal factor) and/or a widening of credit spreads (external factor).

The Group, as required by the provisions of the prudential supervision regulation published by the Bank of Italy, adopted a "Risk Management Regulation" and a "Treasury and Finance Regulation" aimed at maintaining a high degree of diversification, in order to reduce liquidity risk, and identifying the governance and control principles and the organizational units responsible for the operational and structural management of liquidity risk.
These internal regulations define:
• the liquidity risk management criteria adopted, defined in relation to the specific operations of the Group and the potential sources of liquidity risk;
• the operating procedures through which the Group monitors this risk, which include a diversification of short-term assets (operational liquidity management) and medium-term assets (structural liquidity management);
• the criteria for defining and performing stress tests, aimed at measuring in quantitative terms the Group's ability to handle potential adverse events that could affect the level of liquidity risk;
• a contingency funding plan that specifies the strategies and operational modalities for the management of early warning, warning and crisis situations, as well as the resulting roles and responsibilities.

To ensure the implementation of the liquidity risk management and control processes, the Group adopted a governance model based on the following principles:
• separation of the processes for the management of liquidity and processes for the control of liquidity risk;
• development of processes to manage and control liquidity risk, consistent with the Group's hierarchical structure and through a process for the delegation of powers;
• sharing of the decisions and clarity of responsibilities among management, control and operational entities;
• making liquidity risk management and monitoring processes consistent with prudential supervisory guidelines.

Liquidity risk stress tests were performed for assessing the potential impact of stress scenarios on the Group's solvency conditions.

Quantitative information

1. Time breakdown by residual contractual maturity of financial assets and liabilities – euro as denomination currency

Currencies: EURO *(in € thousands)*

Items/Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
Balance sheet assets	**692,225**	**9,955**	**56,079**	**22,650**	**252,928**	**685,466**	**679,581**	**1,593,286**	**55,899**	
A.1 Government securities			50,124		222,737	506,051	363,439	872,247		
A.2 Other debt securities										
A.3 Units in investments funds										
A.4 Loans	692,225	9,955	5,954	22,650	30,190	179,415	316,142	721,039	55,899	
- due from banks	*131,455*	*5,174*								
- customers	*560,769*	*4,781*	*5,954*	*22,650*	*30,190*	*179,415*	*316,142*	*721,039*	*55,899*	
Balance sheet liabilities	**194,013**	**353,675**	**325,232**	**702,496**	**349,015**	**823,287**	**777,762**	**566,193**		**4,636**
B.1 Deposits and current accounts due to	34,647	25,073	19,638	38,451	211,084	231,795	494,228	292,835		
- due from banks	*107*	*5,000*			*67,000*	*67,500*	*250,000*	*133,231*		
- customers	*34,540*	*20,073*	*19,638*	*38,451*	*144,084*	*164,295*	*244,228*	*159,604*		
B.2 Debt securities issued					9,725	303,339	13,300	156,500		
B.3 Other liabilities	159,366	328,602	305,594	664,045	128,206	288,153	270,233	116,858		4,636
Off-balance sheet transactions			**7,000**	**18,388**	**72,480**	**115**	**14,273**	**6,685**		
C.1 Financial derivatives with exchange of capital			7,000	18,388	62,024					
- long positions			*7,000*	*18,388*	*62,024*					
- short positions										
C.2 Financial derivatives without exchange of capital					10,456	115	14,273	6,685		
- long positions					*10,456*	*115*	*14,273*	*6,685*		
- short positions										
C.3 Deposits and loans to be received										
- long positions										
- short positions										
C.4 Irrevocable commitments to disburse funds										
- long positions										
- short positions										
C.5 Financial guarantees provided										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- long positions										
- short positions										
C.8 Credit derivatives without exchange of capital										
- long positions										
- short positions										

Currencies: OTHER *(in € thousands)*

Items/Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
Balance sheet assets	**27,311**	**601**	**1,901**	**287**	**29,814**	**11,940**	**62,126**	**138,784**	**87,121**	**18,892**
A.1 Government securities										
A.2 Other debt securities										
A.3 Units in investments funds										
A.4 Loans	27,311	601	1,901	287	29,814	11,940	62,126	138,784	87,121	18,892
- due from banks	*55*									
- customers	*27,256*	*601*	*1,901*	*287*	*29,814*	*11,940*	*62,126*	*138,784*	*87,121*	*18,892*
Balance sheet liabilities		**151**		**4,660**	**88,709**	**41,451**	**25,415**	**162,223**	**1,843**	**20,735**
B.1 Deposits and current accounts due to		151		2,059	6,720	8,613	14,245	82,549		1,843
- due from banks		*151*		*2,059*	*4,118*	*8,613*	*14,245*	*82,549*		
- customers					*2,601*					*1,843*
B.2 Debt securities issued						27,152	11,170	28,497		
B.3 Other liabilities				2,601	81,989	5,686	0	51,176	1,843	18,892
Off-balance sheet transactions			**7,000**	**18,388**	**72,480**	**115**	**14,656**	**6,685**		
C.1 Financial derivatives with exchange of capital			7,000	18,388	62,024					
- long positions										
- short positions			*7,000*	*18,388*	*62,024*					
C.2 Financial derivatives without exchange of capital					10,456	115	14,656	6,685		
- long positions							*253*			
- short positions					*10,456*	*115*	*14,403*	*6,685*		
C.3 Deposits and loans to be received										
- long positions										
- short positions										
C.4 Irrevocable commitments to disburse funds										
- long positions										
- short positions										
C.5 Financial guarantees provided										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- long positions										
- short positions										
C.8 Credit derivatives without exchange of capital										
- long positions										
- short positions										

1.4 Group – Operational risk

Qualitative information

1. General issues, operational processes and methods for measuring operational risk

Operational risk is the risk of incurring a loss due to inadequacy or failures of procedures, human resources and internal systems or as a result of external events. This category includes, among other, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk also includes legal risk but not strategic and reputational risks.
Operational risk therefore refers to various types of events that would not be significant individually unless analyzed together and quantified for the entire risk category.

With regard to the Group, exposure to this category of risk is generated predominately by failures in work process and in organization and governance—human errors, computer software malfunctions, inadequate organization and control safeguards—as well as any loss of human resources in key corporate management positions. On the other hand, exposure to operational risks deriving from external sources appears to be of negligible importance, partly due to the mitigation tools adopted to address such adverse events (such as, by way of example: the business continuity plan, data storage processes, back up tools, insurance policies, etc.).

The process adopted by the Group to manage and control operational risks is founded on the principle of promoting a corporate culture for managing risk and defining the appropriate standards and incentives, with the aim of fostering the adoption of professional and responsible behavior at all operational levels, as well as the design, implementation and management of an integrated system for operational risk management that is adequate in relation to the nature, activities, size and risk profile.

The operational risk assessment model adopted is of the "mixed" type, meaning a model based both on qualitative assessments, linked to the mapping of the processes and to at-risk activities and the corresponding controls adopted, and on quantitative assessments, using the methodologies specified by the Bank of Italy.

Within the framework of the controls adopted regarding the exposure to operational risk, the following specific risks are also monitored by the Group:

- Money laundering risk, regarding the risk that financial and commercial counterparties and Group vendors, partners, associates and consultants may be parties to transactions that might potentially facilitate the laundering of money coming from illegal or criminal activities;
- Compliance risk, regarding the risk of legal and administrative penalties, significant financial losses or reputational losses due to failure to comply not only with laws and regulations but also with internal and conduct standards applicable to corporate activities. For this type of risk, a review is performed annually of the related assessment methodology, developed for all activities falling within the scope of the Group's regulatory framework, in accordance with a risk-based approach. More specifically, for the relevant laws that do not call for the establishment of specialized functions (i.e., privacy and occupational health and safety), the Compliance Function provides ex ante

consulting support to BFF's functions and assesses ex post the adequacy of the organizational measures and control activities adopted in accordance with the Compliance Risk Assessment method. As for laws and regulations monitored by specialized functions, the Compliance Function carries out an indirect control by cooperating with the specialized functions in defining compliance risk assessment methods in addition to mapping risks and the corresponding controls (Compliance Risk Matrix).

For computing capital requirements for operational risk, the Group uses the Basic Indicator Approach - BIA, according to which capital requirements are computed by applying a regulatory coefficient to an indicator of the volume of business activity (Relevant Indicator).

The Group also assesses operational risks in connection with the introduction of relevant new products, activities, processes and systems and mitigates the consequence of any operational risk that may arise through the preventive involvement of the corporate control functions and the definition of specific policies and regulations on various subjects and topics.

In addition, to control the abovementioned risks, the Group adopts specific organizational models for the management of the risks regarding money laundering, occupational health and safety and information security.

Quantitative information

Based on the aforementioned methodology, the capital requirement for operational risk was equal to €29,775 thousand at December 31, 2016.

SECTION 3 – RISKS OF THE OTHER COMPANIES

The consolidated financial statements at December 31, 2016 reflect the aggregation of the balance sheets of BFF, Farmafactoring España S.A. the special purpose vehicle Farmafactoring SPV I S.r.l. and Magellan.

The SPV Farmafactoring SPV I S.r.l. was established for the securitization transaction structured by Deutsche Bank and was included in the scope of consolidation consistent with the requirements of the IAS/IFRS accounting standards which establish the obligation to consolidate a special purpose entity when, even absent an investment relationship, the company that prepares the financial statements, in substance, controls the special purpose entity.
In any event, this company does not show further and relevant risk factors, other than those mentioned in the preceding paragraphs.

Part F - Consolidated Equity

In accordance with the provisions of EU Regulation No. 575/2013 (CRR), the scope of consolidation used solely for purposes of prudential supervisory reporting, starting from December 31, 2015, includes, besides the companies in the Banking Group, BFF Luxemburg S.à r.l and, for reporting at December 31, 2015 and March 31, 2016, also BFF Lux Holdings S.à r.l., the company put into liquidation on June 20, 2016.
For the purposes of the other parts of the consolidated financial statements and submission of so-called non-harmonized reporting, the reference continues to be that of the Banking Group pursuant to the Consolidated Law on Banking.
As for this Part F, therefore, Section 1 reports the data of the Banking Group, while Section 2 refers to the scope of consolidation envisaged by the CRR for prudential purposes, unless otherwise indicated.

Section 1 – Consolidated equity

A. Qualitative information

The Group's equity represents the aggregate of share capital, reserves, revaluation reserves and profit for the year.
The aggregate equity relevant for supervisory purposes is computed in accordance with the instructions of the Bank of Italy currently in effect and constitutes the reference safeguard of the prudential supervisory regulations.

B. Quantitative information

B.1 Consolidated equity: breakdown by type of company

(in € thousands)

Items/Amounts	Banking Group	Insurance companies	Other companies	Consolidation eliminations and adjustments	Total
Share capital	130,983				**130,983**
Share premium					
Reserves	126,132				**126,132**
Equity instruments					
(Treasury shares)					
Revaluation reserves					
- Available-for-sale financial assets	471				**471**
- Property, plant and equipment					
- Intangible assets					
- Hedges of foreign investments					
- Cash flow hedges	345				**345**
- Foreign exchange differences					
- Non-current assets held for sale					
- Actuarial gains/losses relating to defined benefit plans	(144)				**(144)**
- Share of revaluation reserves of equity accounted investees					
- Special revaluation laws	3,823				**3,823**
Profit for the year attributable to the parent and non-controlling interests	72,136				**72,136**
Equity	**333,746**				**333,746**

B.2 Revaluation reserves for available-for-sale financial assets: breakdown

(in € thousands)

Assets/Amounts	Banking Group		Insurance companies		Other companies		Consolidation eliminations and adjustments		Total 12/31/2016	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	471								471	
2. Equity instruments										
3. Units in investment funds										
4. Loans										
Total	**471**								**471**	
Total 12/31/2016	**481**								**481**	

Available-for-sale financial assets are recognized at fair value. At the end of the year, the carrying amount of the securities must be compared with their amortized cost and any difference is recognized in equity under the revaluation reserves. This measurement led to the recognition at December 31, 2016 of a positive reserve of €471 thousand relative to government securities recorded in the BFF available-for-sale portfolio.

B.3 Revaluation reserves for available-for-sale financial assets: year-over-year change

(in € thousands)

	Debt securities	Equity securities	Units in investment funds	Loans
1. Beginning balance	**481**			
2. Positive changes				
2.1 Increases in fair value	471			
2.2 Reclassification of negative reserves to income statement:				
- due to impairments				
- following disposal				
2.3 Other changes				
3. Negative changes				
3.1 Decreases in fair value				
3.2 Impairment losses				
3.3 Reclassification of positive reserves to income due to disposal	(481)			
3.4 Other changes				
4. Ending balance	**471**			

B.4 Revaluation reserves related to defined benefit plans: year-over-year change

IAS 19 no longer allows the deferral of actuarial gains and losses under the corridor method, requiring instead their immediate recognition in comprehensive income for the year to which they are attributable.
The results of the actuarial valuation reflect the impact of the provisions of Law No. 296/2006 and the computation, for IAS 19 purposes, refers solely to vested employee severance indemnity that was not transferred to supplemental pension funds or to the INPS Treasury Fund.
This revaluation reserve is a negative €144 thousand at December 31, 2016.

Section 2 – Own Funds and banking regulatory ratios

2.1 Scope of implementation of the regulation

Own Funds are computed, starting on January 1, 2014, according to the EU Regulation No. 575/2013 relative to the new regulations harmonized for banks and investment companies, contained in the EU Capital Requirements Regulation (CRR) and in the EU Capital Requirements Directive (CRD IV) of June 26, 2013, which became applicable based on Bank of Italy Circular No. 285 "Oversight provisions for banks" and Circular No. 286 "Instructions for the preparation of supervisory reporting by banks and securities intermediaries", both dated December 17, 2013.

These regulations incorporate the standards set forth by the Basel Committee for banking regulations (known as the Basel 3 Framework), the implementation of which, pursuant to the Consolidated Law on Banking, is the responsibility of the Bank of Italy, and define the ways with which the discretionary authority attributed by EU laws to national authorities may be exercised.

In keeping with the requirements of EU Regulation No. 575/2013 (CRR), starting with the reporting at December 31, 2015, in the scope of consolidation used exclusively for prudential supervision purposes, BFF Lux Holdings S.à r.l. was the parent company. This company was put into liquidation on June 20, 2016 and, therefore, in relation to the reporting from June 30, 2016, BFF Luxembourg S.à r.l. is the new parent company.

2.2 Own Funds

A. Qualitative information

Own Funds represent the first line of defense against risks associated with the complexity of financial activities and constitute the main parameter of reference for the assessment of capital adequacy of the Group.
The purpose of prudential supervision regulations is to ensure that all credit intermediaries have a minimum obligatory capitalization in relation to the risks assumed.

The Group constantly assesses its capital structure, developing and employing techniques for monitoring and managing regulated risks, also through a Risk Committee, in its capacity as the responsible multi-member internal body.

From the standpoint of prudential supervision, the amount of capital required is determined based on the current reporting regulations.

Own Funds are the sum of Common Equity Tier 1 Capital (CET1), Additional Tier 1 Capital (AT1) and Tier 2 Capital (T2), net of items to be deducted and IAS/IFRS prudential filters.
The main components of the Group's Own Funds are computed in Common Equity Tier 1 (CET1), and are the following:
• paid-in share capital;
• reserves (legal reserve, extraordinary reserve, retained earnings);
• undistributed portion of the profit for the year;
• revaluation reserves: actuarial gains (losses) relating to defined benefit plans;
• revaluation reserves: special revaluation laws;
• any non-controlling interests eligible for inclusion in the computation of CET1.

Other intangible assets, including goodwill, if any, are deducted from the above.

As regards the prudential treatment of unrealized gains or losses relating to exposures with the central administrations classified in the "Available-for-sale" portfolio, the CRR requires banks to include such reserves in the Own Funds.

On January 24, 2014, BFF's Board of Directors decided to exercise the option permitted by the Bank of Italy Circular No. 285 of December 17, 2013 – Section II, Paragraph 2, last sentence, wherein it is stated that banks have the option of "not including in any component of Own Funds unrealized gains or losses relating to exposures with the central administrations classified in the 'Available-for-sale' category of IAS 39, as approved by the EU" (option allowed also under Supervisory Bulletin No. 12 of December 2013, in the paragraph relating to "Own Funds Regulations").
Therefore, as reasserted by the Bank of Italy Communication No. 90517/17 of January 24, 2017, and until the end of the transition period, that is, until the adoption of IFRS 9 (now January 1, 2018), the companies belonging to the Group will not include in Own Funds unrealized profit or loss relative to the above exposures.

Additional Tier 1 Capital (AT1) and Tier 2 Capital (T2) include exclusively the non-controlling interests given recognition to in consolidated Own Funds, in accordance with the CRR, Part 2 – Title II "Non-controlling interests and additional Tier 1 and Tier 2 Class 1 and equity instruments issued by affiliates.
In relation to the determination of non-controlling interests in Additional Tier 1 Capital and in Tier 2 Capital, account is taken, as reported in the Bank of Italy Circular No. 285, of the transitory factor applicable pursuant to Article 480, paragraphs 2 and 3 of the CRR, equal to 0.6 for the current year.
Own Funds amount to €234.7 million compared to €258 million at December 31, 2015. The difference is mainly due to the acquisition of the Magellan Group which led to the recognition of goodwill, a deduction from Own Funds, equal to €22.1 million.

B. Quantitative information

(in € thousands)

Items/Amounts	Total 12/31/2016	Total 12/31/2015
A. Common Equity Tier 1 - CET1 before the application of prudential filters	470,535	458,568
CET1 instruments subject to transitory provisions		
B. CET1 prudential filters (+/-)		
C. CET1 gross of items to be deducted and of the transitory regime effects (A +/- B)	470,535	458,568
D. Elements to be deducted from CET1	(241,744)	(208,618)
E. Transitory regime - Impact on CET1 (+/-), including minority interests subject to transition requirements	3,073	5,425
F. Total Common Equity Tier 1 - CET1 capital (C - D +/- E)	231,865	255,376
G. Additional Tier1 - AT1 capital gross of items to be deducted and of the transitory regime effects	2,047	1,794
AT1 instruments subject to transitory provisions		
H. Elements to be deducted from AT1		
I. Transitory regime - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to transitional provisions	(819)	(660)
L. Total Additional Tier1 - AT1 capital (G - H +/- I)	1,228	1,134
M. Tier2 - T2 capital gross of items to be deducted and of the transitory regime effects	2,620	2,297
T2 instruments subject to transitory provisions		
N. Elements to be deducted from T2		
O. Transitory regime - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions	(1,048)	(844)
P. Total Tier 2 - T2 capital (M - N +/- O)	1,572	1,452
Q. Total Own Funds (F + L + P)	234,665	257,962

Own Funds of the Group pursuant to the Consolidated Law on Banking amount to €235.3 million at December 31, 2016, compared to €259.3 million at December 31, 2015, as presented in the following table.

(in € thousands)

Items/Amounts	Total 12/31/2016	Total 12/31/2015
A. Common Equity Tier 1 - CET1 before the application of prudential filters	**261,139**	**262,012**
CET1 instruments subject to transitory provisions		
B. CET1 prudential filters (+/-)		
C. CET1 gross of items to be deducted and of the transitory regime effects (A +/- B)	261,107	262,012
D. Elements to be deducted from CET1	**(25,795)**	**(2,747)**
E. Transitory regime - Impact on CET1 (+/-), including minority interests subject to transition requirements		
F. Total Common Equity Tier 1 - CET1 capital (C - D +/- E)	**235,345**	**259,265**
G. Additional Tier1 - AT1 capital gross of items to be deducted and of the transitory regime effects		
AT1 instruments subject to transitory provisions		
H. Elements to be deducted from AT1		
I. Transitory regime - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to transitional provisions		
L. Total Additional Tier1 - AT1 capital (G - H +/- I)		
M. Tier2 - T2 capital gross of items to be deducted and of the transitory regime effects		
T2 instruments subject to transitory provisions		
N. Elements to be deducted from T2		
O. Transitory regime - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions		
P. Total Tier 2 - T2 capital (M - N +/- O)		
Q. Total Own Funds (F + L + P)	**235,345**	**259,265**

In this case, too, the difference is mainly due to the acquisition of the Magellan Group, which led to the recognition of goodwill, a deduction from Own Funds, equal to €22.1 million.

2.3 Capital adequacy

A. Qualitative information

Compliance with capital adequacy limits, both for the CET1 Capital Ratio, Tier 1 Capital Ratio and the Total Capital Ratio, is constantly monitored by the relevant corporate bodies.
The CET1 Capital Ratio is the ratio of Common Equity Tier 1 Capital to the amount of Risk-Weighted Assets.
The Tier 1 Capital Ratio is the ratio of Tier 1 Capital to the amount of Risk-Weighted Asset.
The Total Capital Ratio is the ratio of Own Funds to the amount of Risk-Weighted Assets.
In accordance with the provisions of Bank of Italy Circular No. 262 of December 22, 2005 – "Bank financial statements: presentation format and preparation rules," and subsequent updates, the amount of risk-weighted assets was determined as the product of the total of prudential capital requirements and 12.5 (the inverse of the minimum obligatory ratio equal to 8%).

The Group's total exposure to risks at December 31, 2016, in relation to its business, is adequate according to the level of capitalization and the risk profile identified.
The *CET1 Capital Ratio* is 16.4%;
The *Tier 1 Capital Ratio* is 16.5%;
The *Total Capital Ratio* is 16.6%.
These ratios do not include the net profit of the Group.

<u>Pillar I –Capital adequacy to meet the typical risks associated with financial liabilities</u>

From the standpoint of operations, the absorption of risks is calculated using various methods:
- credit risk → standardized approach;
- counterparty risk → standardized approach;
- operational risk → basic approach;
- market risk → standardized approach.

Credit risk
The adoption of the "Standardized" approach involves dividing the exposures into various classes ("portfolios") based on the type of counterparty, and applying diversified weighting coefficients to each portfolio.
More specifically, for the "Central administrations and central banks" portfolio, the weighting depends on the rating assigned by the ECAIs and the ECAs to the individual countries. For the "Supervised intermediaries" portfolio, the weighting depends on the rating of the country where the supervised intermediary has its headquarters. For the "public sector entities" portfolio, the rules for weighting are the same as those for supervised intermediaries.
With regard to the reporting of Own Funds and capital requirements, the credit assessment agency (ECAI) for exposures to central administrations and central banks recognized by BFF is DBRS, with the "Unsolicited" type of rating.
For the calculation of credit risk, the Group applies the following weighting factors established by the CRR and introduced into the Bank of Italy's regulation on "Prudential Supervision:

• 0% for receivables from central administrations and central banks with offices in a European Union member state and financed in the local currency;
• 20% for receivables from territorial entities located in a European Union member state, denominated and financed in the local currency, and for receivables from the Public Administration of countries in Credit Quality Class 1.
• The non-recourse receivables from the Spanish Healthcare System fall into this category since the counterparties of these exposures are represented by the "Comunidad" (the Regions);
• 50% for receivables from the Public Administration of countries in Credit Quality Class 2, which include exposures with entities of the Polish and Slovakian public sector and, up until December 31, 2016, those of the Italian Public Administration. 100% for countries in Credit Quality Class 3 (Italy, starting from 2017, and Portugal). For exposures with an original duration of three months or less, a weighting of 20% is applied;
• 50% or 100% for receivables from supervised intermediaries according to the Credit Quality Class of the country in which they have their offices, except for exposures with an original duration of three months or less, for which a weighting of 20% is applied;
• 75% for receivables from retail and small business counterparties;
• 100% for receivables from private debtors;
• 100% for property, plant and equipment, equity investments, investment funds and other assets;
• 150% for past due loans;
• 100% for past due loans, if the specific value adjustments are 20% or more of the non-collateralized portion, before value adjustments.

The unsolicited rating assigned to the Italian Republic by DBRS, on January 13, 2017, went from "A low" to "BBB high" and, consequently, the country was downgraded from Credit Quality Class 2 to Credit Quality Class 3.
The exposures for receivables from the Public Administration, which include those from entities belonging to the National Healthcare System and Local Healthcare Entities (ASL), therefore, starting from the March 2017 supervisory reporting, will be rated in Credit Quality Class 3, with a 100% weighting, compared to 50% adopted up to December 31, 2016.
The Group is already putting into place capital management measures to meet the needs in terms of capital requirements, following the impacts of the aforementioned downgrade.

The Group constantly maintains, as a capital requirement covering credit risk, an amount of regulatory capital equal to at least 8% of the weighted exposure for credit risk.

Capital requirement = 8% RWA

The Risk-Weighted Amount is determined by the sum of the risk-weighted assets of the various classes.

Counterparty risk
Counterparty risk represents a particular type of credit risk, which generates a loss if the transactions executed with a given counterparty have a positive value in the event of default.
For BFF, the counterparty risk can be generated by repurchase agreements having as a counterparty Cassa Compensazione e Garanzia. The counterparty risk from repurchase agreements is measured using the simplified approach.

Operational risk

The Group measures operational risk using the "Basic" approach: the capital requirement is determined by applying a 15% coefficient to the three-year average of the relevant indicator, calculated on the financial statements items of the last three years, in accordance with European Regulation No. 575/2013.

Market risk

The Group measures market risk using the "Standardized" method. The regulation identifies and regulates the treatment of the various types of market risk in reference to the regulatory trading book.

Pillar II –The ICAAP Summary

The supervisory regulation requires intermediaries to adopt control strategies and processes for determining the adequacy of current and future capital. It is the Regulatory Authority's responsibility to verify the reliability and accuracy of the results generated and, where necessary, takes appropriate corrective action.
By April 30, 2017 the Group must submit the "ICAAP Summary, to the Bank of Italy, updating the risk management system aimed at the determination of the capital adequacy.

B. Quantitative information

The following table presents the capital adequacy relating to the scope of consolidation, used for prudential supervisory purposes only, which calls for BFF Luxembourg S.à r.l. as the parent.

(in € thousands)

Categories/Amounts	Unweighted assets		Weighted assets/Requirements	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1 Standardized approach	4,767,310	3,341,071	1,043,698	763,362
2. Internal rating based approach				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			83,496	61,068
B.2 Credit valuation adjustment risk			76	
B.3 Settlement risk				
B.4 Market risk				
1. Standardized approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach				
2. Standardized approach			29,775	24,457
3. Advanced approach				
B.6 Other calculation elements				
B.7 Total capital requirements			**113,347**	**85,525**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			1,416,833	1,069,063
C.2 Common Equity Tier 1 Capital/Risk-weighted assets (CET1 capital ratio) (%)			**16.4%**	**23.9%**
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			**16.5%**	**24.0%**
C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)			**16.6%**	**24.1%**

The capital ratios show a reduction principally due to the acquisition of the Magellan Group, which contributed about €27 million to the increase in total capital requirements.

The following table gives the capital requirements, for the dates indicated, relative to the scope of consolidation of the Group pursuant to the Consolidated Law on Banking.

(in € thousands)

Categories/Amounts	Unweighted assets		Weighted assets/Requirements	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1 Standardized approach	4,736,264	3,336,877	1,037,483	760,111
2. Internal rating based approach				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			82,998	60,809
B.2 Credit valuation adjustment risk			76	
B.3 Settlement risk				
B.4 Market risk				
1. Standardized approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach				
2. Standardized approach			29,775	24,457
3. Advanced approach				
B.6 Other calculation elements				
B.7 Total capital requirements			**112,849**	**85,266**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			1,410,612	1,065,819
C.2 Common Equity Tier 1 Capital/Risk-weighted assets (CET1 capital ratio) (%)			**16.7%**	**24.3%**
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			**16.7%**	**24.3%**
C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)			**16.7%**	**24.3%**

Part G - Business combinations

Section 1 – Transactions closed during the year

1.1 Business combinations

Acquisition of the Magellan Group

The acquisition of Magellan offers the Group the possibility of growing significantly through exposure on markets experiencing growth and the expansion of the range of products and services. With the Magellan acquisition, the Group will be able to operate in a position of leadership on the Polish market of alternative financing in the hospital area.
Magellan is also a major non-banking player in financial services offered to hospitals and the healthcare sector in Slovakia where it has replicated its business model in recent years by establishing consolidated relations with 36 healthcare structures, representing about 50% of the main structures that supply healthcare services on Slovakian territory.

Details of the acquisition transaction are as follows:

Name	Transaction date	Transaction cost	Holding %	Profit for the year 2015	Profit for the period at the acquisition date
Magellan Group	June 2016	€103.1 million	100%	PLN 43.2 million	PLN 17.3 million

On January 8, 2016, Mediona, a Polish subsidiary of BFF, announced to the market and to the Polish Financial Supervisory Authorities (KNF), the launch of a tender offer for a maximum 6,720,037 shares equal to the entire share capital of Magellan, with the aim of delisting the shares.
All the conditions were satisfied and the tender offer for the shares expired on May 27, 2016, with Mediona acquiring 97.127% of Magellan share capital tendered during the offering period.
Consequently, in line with the timing announced to the market, on June 1, 2016, Mediona went ahead with the purchase at the Warsaw Stock Exchange of the Magellan shares tendered and, subsequently, on the June 3, 2016 (settlement date), Mediona made the payment due on the 6,526,941 shares tendered, equal to PLN 443,831,988 (a per share price of PLN 68).
The percentage of shares tendered gave Mediona the possibility of exercising a squeeze-out for the shares in Magellan that were not tendered.

As a result of the conclusion of the relative procedure on June 30, 2016, Mediona holds 98,996% of Magellan's shares with payment of another PLN 8,542,500. Magellan holds treasury shares corresponding to 1.004% of share capital, which summed with those acquired by Mediona, gives 100% control.

Overall, about €103.1 million, including €22.1 million of goodwill, was paid for the acquisition of the Magellan Group. Pursuant to IFRS 3, within 12 months of the acquisition date, the purchase price must be allocated to the balance sheet components of the acquired entity (Purchase Price Allocation - PPA), to determine the final value of goodwill. At each year end reporting date, an impairment test of the amount recognized as goodwill will be performed to determine any impairment loss.
The tender offer was subject to receipt of approval by BFF from the Bank of Italy which was received on May 18, 2016. The authorization from the Polish Competition Authority was instead received on February 17, 2016.

The Magellan shareholders' meeting met on September 30, 2016 and approved the delisting of the shares issued by Magellan and, consequently, on December 1, 2016 the Warsaw Stock Exchange ordered the delisting of Magellan shares from the main Warsaw Stock Market, effective beginning December 6, 2016.
On December 16, 2016, the merger of Mediona with and into Magellan was registered with the Lodz registry office, with the acquisition, by BFF, of 67,471 treasury shares held by Magellan for PLN 23 million, equal to €5.2 million, which increased the value of the investment by the same amount.

The above transaction, entered into solely for the purpose of the company's reorganization, is a transaction among companies under common control pursuant to IFRS 3 and was carried out using the carrying amounts and, therefore, did not have any accounting effect on the consolidated financial statements.

Finally, it should be noted that on May 27, 2016, a loan contract was signed with Unicredit Group for the acquisition of Magellan S.A..
The loan was made for a total amount of about PLN 355 million, about 80% of the value of the public tender offer.
The loan is structured as a term loan with one lump sum bullet repayment due May 31, 2019.
Considering the variable nature of the interest rate and specific designation of the loan, an interest rate swap (IRS) contract was executed on July 1, 2016 to hedge the indexed Wibor 3-month rate with the amount and term equal to the loan itself.

Part H - Related party transactions

1. Information about the compensation to BFF executives with strategic responsibilities

Banca Farmafactoring S.p.A.
- Compensation of Directors: for the full year amounts to €1,552 thousand.
- Compensation of the Board of Statutory Auditors: for the full year amounts to €177 thousand.

BFF directors and executives have invested in BFF Luxembourg S.à r.l..
The following table sets out the number of common and preferred shares, equal to 3.90% of share capital, held by the directors and executives of BFF in BFF Luxembourg S.à r.l. at December 31, 2016.

	number of common and preferred shares	company
Directors and Executives	16,818,126	BFF Luxembourg S.à r.l.

2. Information about related party transactions

In order to optimize funding of the Group, BFF has entered into intercompany loan contracts with the subsidiaries at conditions applied on standard market terms.
More specifically, the balances of the intercompany positions at December 31, 2016 are the following:
- Farmafactoring España (through Banca Farmafactoring Sucursal en España) for €151 million;
- Magellan S.A. for PLN 355 million;
- Magellan Central Europe for €78 million;
- Magellan Ceska Republic for CZK 45 million.

There is a license agreement between BFF and Farmafactoring España S.A. covering the use, under license, of the software, organizational methods and communication lines of BFF referred to as IT rights, as well as the assistance, maintenance and monitoring of the IT rights. The consideration is the royalty which at December 31, 2016 is estimated at about €395 thousand.

Farmafactoring España purchased Italian healthcare receivables during the year from the parent for about €82 million. These receivables have already been collected at the reporting date for about €67 million, with an outstanding balance of about €14 million.

BFF carries out:
• administrative support services provided to the parent BFF Luxembourg S.à r.l. for the preparation of CRR Group consolidated reporting. The consideration under the service agreement is €10,500 per year;
• audit activities for the subsidiary Farmafactoring España, for €6,400 per year;
• administrative support services for Fondazione Farmafactoring, for consideration of €15 thousand per year.

The Group also has factoring and mandate arrangements for the management and collection of receivables with its shareholder companies, conducted on standard market terms.

Lastly, it should be noted that there are deposit accounts with directors of the Group.

Part I - Share-based payments

A. Qualitative information

1. Description of the share-based payment agreements

On November 27, 2015, the Board of Directors of BFF approved and, on December 21, 2015 then updated, a "Report on proposed amendments to the by-laws", drawn up in accordance with Article 2, Section II, Chapter 1, Title III of Prudential Instructions for Banks. The Report was initially submitted on December 23, 2015, and subsequently in the integrated version on January 19, 2016, to the Bank of Italy, for issue of the authorization pursuant to Article 56 of the Consolidated Law on Banking.
The proposed amendments to the by-laws stem from BFF's intention to grant, through a bonus increase in share capital, an award that is one-time and not linked to performance targets, of special shares to each of the employees of the Group to motivate them, reward their loyalty and strengthen their sense of belonging to the Group, and align their interests with those of the shareholders through a Stock Grant Plan.

On April 6, 2016, BFF received Bank of Italy's authorization, issued pursuant to Article 56 of the Consolidated Law on Banking, regarding the amendments to the by-laws contained in the above Report.
Consequently, on May 18, 2016, both the Ordinary and Extraordinary Shareholders' Meeting of the Bank passed resolutions to approve:
• the Stock Grant Plan,
• a bonus increase in share capital, pursuant to Article 2349 of the Italian Civil Code, up to a maximum of €134,750, corresponding to a maximum number of 1,750 special shares, through the conversion of retained earnings, as shown in the most recently approved financial statements, in a one-time award to be made by June 30, 2016; and
• the amendments to the by-laws necessary for implementing the Stock Grant Plan.

The bonus increase in share capital was registered in the Milan Company Register on June 22, 2016 and 6 bonus special shares were issued, as of the date of May 31, 2016, to each employee of the Group with a permanent work contract (including those with a part time contract) who has the following requisites:
(i) an employee against whom there are no disciplinary proceedings pending that may result in the resolution of work relationship, or, alternatively
(ii) an employee against whom there is no sentence at first instance in a legal proceeding connected with work that may result in the resolution of the work relationship or in any case connected with violations of the principles of the Group's Code of Ethics.
The bonus award of the special shares was made by charging the equity reserves with the same accounting value as BFF ordinary shares.

The special shares do not have voting rights and only attribute the holders the right to receive, proportionally in relation to the number of special shares held, a percentage portion of the total profit, as well as any other distribution, other than the distribution of the share premium reserve and the reimbursement of capital to ordinary shareholders.

An automatic mechanism for the conversion of the special shares into ordinary shares is also established, in a ratio of one ordinary share for each special share, in the event of the disposal by the current majority shareholder of its investment, in the event of the listing of BFF's shares on a regulated market and, lastly, in the event of the purchase of the special shares by the ordinary shareholders, should the employee recipients fail to maintain the subjective requisites.
The special shares may not be sold in any case until the end of the third year from the date of the award at the end of the third year, whenever the automatic conditions of conversion have not been satisfied, the employee recipients may transfer the special shares only to another subject having the subjective requisites.
Lastly, it should be noted that on December 5, 2016, the BFF Extraordinary Shareholders' Meeting approved the stock option plan for employees and members of the corporate boards, in the event of the Bank's listing, which has already been submitted for examination by the Bank of Italy pursuant to paragraph 1.2, Section III, Chapter 2 of the Bank of Italy Circular No. 285.
The option rights relating to the above stock option plan had not yet been awarded as of the date of the approval of the financial statements.

B. Quantitative information

1. Year-over-year change

	Banking Group			Insurance companies			Other companies			Total 12/31/2016			Total 12/31/2015		
Items/Number of options and exercise price	Number of options	Average prices	Average expiration	Number of options	Average prices	Average expiration	Number of options	Average prices	Average expiration	Number of options	Average prices	Average expiration	Number of options	Average prices	Average expiration
A. Opening balance	**1,700,000**	**77**								**1,700,000**	**77**		**1,700,000**	**77**	
B. Increases	**1,074**	**77**								**1,074**	**77**				
B.1 New issues	1,074	77								1,074	77				
B.2 Other changes															
C. Decreases															
C.1 Cancelled															
C.2 Exercised															
C.3 Expired															
C.4 Other changes															
D. Closing balance	**1,701,074**	**77**								**1,701,074**	**77**		**1,700,000**	**77**	
E. Options exercisable at the end of the year															

Part L - Segment reporting

At December 31, 2016, the Group is composed of Banca Farmafactoring S.p.A., the parent company, and the subsidiaries Farmafactoring España and Magellan.

BFF and its subsidiary Farmafactoring España S.A. are specialized in the management and non-recourse factoring of receivables owed to suppliers mainly by the entities of the National Healthcare System and other sectors of the Public Administration in Italy and in Spain.
BFF also operates in Portugal under the freedom to provide services provision.

The two companies provide financial and management support to leading Italian and international companies operating in various sectors (primarily drugs and biomedical) through non-recourse factoring.
The clientele consists mainly of multinational companies in the pharmaceutical and biomedical sectors which generate receivables from their activities with the National Healthcare System and the Public Administration. BFF is currently also diversifying its business into other sectors (telecommunications and utilities).

The following table sets forth the volumes handled, the management accounts outstanding and the receivables purchased for the non-recourse factoring business, broken down by debtor and geographic region, for the year ended December 31, 2016 compared to December 31, 2015, reported by BFF and the subsidiary Farmafactoring España.

(in € thousands)

	At December 31, 2016			At December 31, 2015		
	Volumes	Outstanding (management accounts)	Receivables purchased	Volumes	Outstanding (management accounts)	Receivables purchased
Italy	**5,476,782**	**1,838,614**	**2,606,116**	**5,764,216**	**1,797,015**	**2,481,156**
National Healthcare System	4,472,986	877,262	1,726,125	4,550,826	951,243	1,512,774
Public Debtors	893,701	924,691	826,393	1,102,277	824,665	939,586
Other	110,095	36,660	53,598	111,113	21,107	28,796
Spain	**351,266**	**139,457**	**345,554**	**467,170**	**183,434**	**449,590**
National Healthcare System	262,974	117,409	257,263	412,596	142,210	395,016
Public Debtors	88,291	22,048	88,291	54,574	41,224	54,574
Portugal	**51,137**	**39,030**	**51,137**	**55,028**	**28,392**	**55,028**
National Healthcare System	51,137	39,030	51,137	55,028	28,392	55,028
Total	**5,879,185**	**2,017,100**	**3,002,807**	**6,286,414**	**2,008,841**	**2,985,774**

Magellan S.A. is an independent specialized operator and a leader in the market for financial services offered to companies operating in the healthcare sector in Poland.
In the European Union, Magellan also has a significant presence in Slovakia and the Czech Republic.
Magellan's business covers three main sectors:

- financing the working capital of suppliers of the public administration;
- financing present and future receivables;
- financing investments in the public sector and healthcare.

New business contributed by Magellan during the year amounted to PLN 1,830 million (about €420 million at the average exchange rate for the year), with an increase of PLN 1,685 million compared to December 31, 2015.
The breakdown of new business by geographical region is presented below:

	12/31/2016	12/31/2015
Poland	365	329
Slovakia	41	44
Czech Republic	8	9
Spain	12	16
Total	**426**	**398**

It should be noted that during the previous year, Magellan began expanding into Western Europe, opening a branch in Spain, where activities since the second half of this year are managed directly by the subsidiary FFE.

Additional Information about the breakdown of the clientele by geographic region and sector is reported in the tables in the Notes in Part E.

Other information

Audit fees to the independent auditors or entities in their network

The following table, prepared in accordance with Article 149-duodecies of the CONSOB Issuers Regulation (Resolution No. 11971 of May 14, 1999, and subsequent updates), presents the fees relative to the year 2016 for auditing services and other services rendered by the independent auditors and the companies in their network. Such fees represent the costs incurred and recorded in the statutory financial statements, net of the reimbursement of expenses and deductible VAT and the CONSOB contribution.

	Banca Farmafactoring SpA				Group companies			
	PwC SpA		PwC Network		PwC SpA		PwC Network	
Type of service	Italy	Outside Italy	Italy	Outside Italy	Italy	Outside Italy	Italy	Outside Italy
Audit fees	199			29				83
Attestation services (*)	718							
Tax fees				120				2
Other services (**)			461	1,409				
Total	**917**		**461**	**1,558**				**85**

(*) The amount refers to comfort letters issued on accounting, tax, and forecast data for purpose of the report on the information prospectuses.
(**) The amounts mainly refer to the activities connected with the acquisition of the Magellan Group and with due diligence.

03 INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the shareholders of
Banca Farmafactoring S.p.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Banca Farmafactoring Group, which comprise the consolidated balance sheet as of 31 December 2016, the consolidated income statement, the statement of consolidated comprehensive income, the statement of changes in consolidated shareholders' equity, the consolidated statement of cash flows for the year then ended and the related notes, which include a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view, in order to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Banca Farmafactoring Group as of 31 December 2016 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

Report on compliance with other laws and regulations

Opinion on the consistency of the report on operations and of certain information required by paragraph 2, letter b) of article 123-bis of Legislative Decree No. 58/98 with the consolidated financial statements

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information referred to in paragraph 2, letter b) of article 123-bis of Legislative Decree No. 58/98, which are the responsibility of the directors of Banca Farmafactoring S.p.A., with the consolidated financial statements of Banca Farmafactoring Group as of 31 December 2016. In our opinion, the report on operations and the information referred to in paragraph 2, letter b) of article 123-bis of Legislative Decree No. 58/98 are consistent with the consolidated financial statements of Banca Farmafactoring Group as of 31 December 2016.

Milan, 20 February 2017

PricewaterhouseCoopers SpA

Signed by

Giovanni Ferraioli
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers. We have not examined the translation of the consolidated financial statements referred to this report.

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