BANCA FARMAFACTORING

BFF BANKING GROUP

2016 ANNUAL REPORT

Banca Farmafactoring S.p.A.
Registered office in Milan – Via Domenichino 5

Share capital €130,982,698 (fully paid-in)
Company Register No. 249145
Tax Code No. 07960110158

ANNUAL REPORT 2016 32nd YEAR

Milan, February 24, 2017

Call to the ordinary Annual General Shareholders' Meeting of Banca Farmafactoring S.p.A.

The shareholders are hereby convened to the ordinary Annual General Shareholders' meeting to be held at the headquarters of the Company, in Milan, Via Domenichino 5, in first call, on **Thursday March 9, 2017 at 11:30**, and, should it prove necessary, in second call, on Wednesday, March 15, 2017 at same time and place, in order to pass resolutions on the following:

Order of Business

1. Examination of the draft financial statements for the year ended December 31, 2016, the Board of Directors' Report on Operations and the Board of Statutory Auditors' Report. The consolidated financial statements for the year ended December 31, 2016. Relevant and consequent pertinent resolutions.

2. Annual report on the activities conducted with the associated companies, during the year 2016.

3. Audit Activities Report on the subject of the BFF Group compensation and incentive policies and practices.

4. Annual Report on the BFF Group compensation and incentive policies.

5. Compensation and Incentive Policy for members of the Strategic Supervision, Management and Control Bodies and staff of the BFF Group. Update. Relevant and consequent pertinent resolutions.

6. Resolutions with effectiveness subject to the start of trading of the Company's shares on the Mercato Telematico Azionario concerning:
   Compensation and Incentive Policy for members of the Strategic Supervision, Management and Control Bodies and staff of the BFF Group. Update. Relevant and consequent pertinent resolutions.

Chairman of the Board of Directors
S. Messina

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	Independent 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

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 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. Comments on the Economies of the Countries in which the Bank 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.
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%).

The National Debt Structure, Expenditures for Goods and Services and Healthcare in Italy. Comments on the Countries in which the Bank 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:

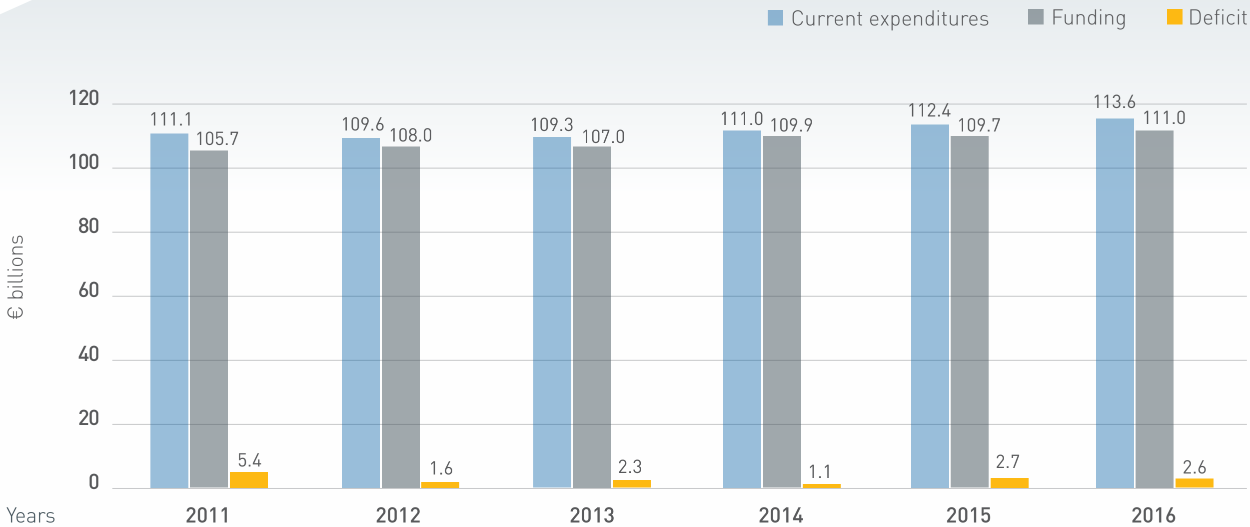
a. Legislative Decree No. 35/2013 made approximately €40 billion available for the years 2013 and 2014;
b. Legislative Decree No. 102/2013 set aside another €7.2 billion for 2013;
c. The 2014 Stability Law allotted €0.5 billion;
d. Legislative Decree No. 66/2014 made available an additional amount of €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)



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.

Developments in Banca Farmafactoring

In keeping with its planned guidelines, Banca Farmafactoring continues to 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 Portugal, in the latter country under the freedom to provide services provision, in 2016 Banca Farmafactoring 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.

In Spain, since 2015 Banca Farmafactoring also has a branch in Madrid through which it has extended the model of online deposit account already operating in Italy. The model is aimed at retail

and corporate customers and is guaranteed by the *Fondo Interbancario di Tutela dei Depositi*.
On May 31, 2016, Banca Farmafactoring 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.
Therefore, the Magellan Group's income statement is consolidated in the Banca Farmafactoring Group 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 Banca Farmafactoring acquired 67,471 treasury shares that were held by Magellan in Mediona, 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 Banking Group will operate 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 Banca Farmafactoring 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.

For 2016, the Bank reported a statutory profit of €70.3 million. This is an increase of about 18% over the statutory profit for 2015 of €59.7 million.
Excluding non-recurring expenses of €8.7 million (net of the tax effect) and extraordinary dividends received from Farmafactoring España S.A. of €7.7 million (net of the tax effect), the statutory profit

in 2016 would have been €71.3 million, up 13% compared to 2015, when the profit, considering the non-recurring expenses incurred of €3.5 million, would have been €63.2 million.
Non-recurring expenses incurred by the Bank in 2016 for the acquisition, settlement and integration of Magellan amount to a total of €4.8 million (net of the tax effect), whereas non-recurring expenses for other transactions were incurred for €2.4 million (net of the tax effect).
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, 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.

The following table shows that Banca Farmafactoring's Own Funds amount to €225 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.
The regulatory capital ratios CET1 Capital Ratio, the Tier 1 Capital Ratio and the Total Capital Ratio are 15.7%, without taking into account the appropriation of profit for the year.

(in € millions, unless other wise stated)

	12/31/2016	12/31/2015
Own Funds	225	250
CET1 Capital Ratio	15.7%	20.8%
Tier 1 Capital Ratio	15.7%	20.8%
Total Capital Ratio	15.7%	20.8%

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.

In the event that the entire profit for the year is appropriated to increase Own Funds, the CET1 Capital Ratio, the Tier 1 Capital Ratio and the Total Capital Ratio of the Bank would be equal to 20.6%.
Considering that the Total Capital Ratio of the CRR Group is 16.6%, consistently with the dividend policy approved by the Board of Directors of the Bank, 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 the CRR Group.

During the course of the year, Banca Farmafactoring 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);
• the securitization transaction with Deutsche Bank was renewed for €85 million, an amount that is lower than in the previous year,
thus reducing the Bank's funding costs.

A description is provided below on the trend of the most important indicators of the Bank's business and the key balance sheet and income statement figures.

Performance by Banca Farmafactoring in 2016

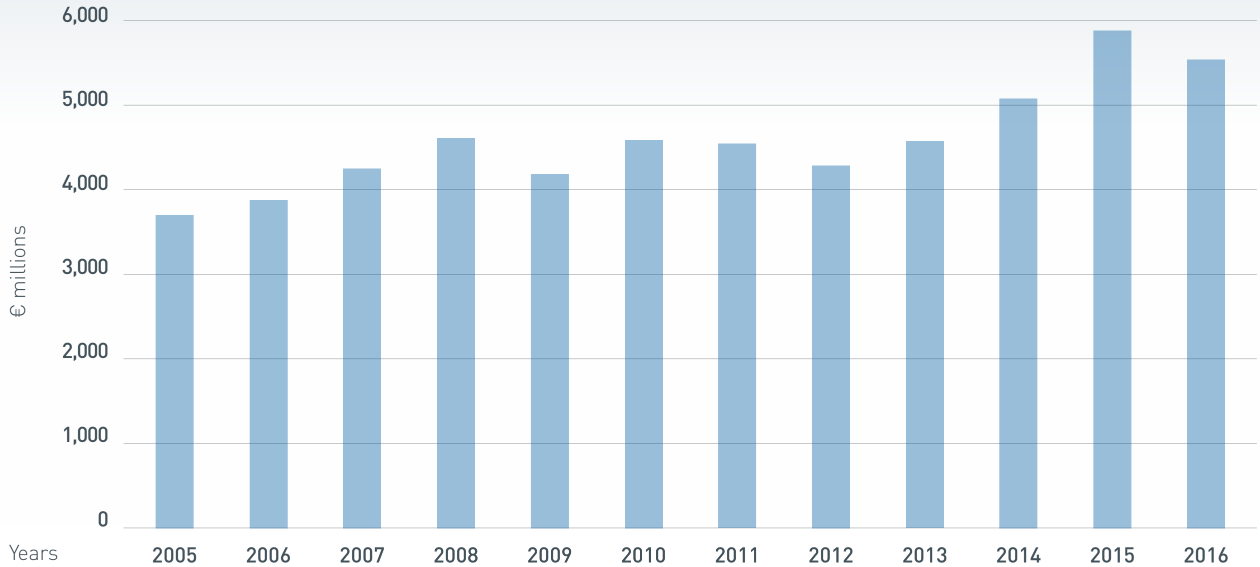
Overall volumes reported by the Bank in 2016 total €5,528 million in 2015. This is a decrease of 5% from €5,857 million recorded in 2015. Total collections, on the other hand, came to €5,891 million compared to €4,984 million in the prior year.

To counteract the challenging macroeconomic scenario and a more complicated competitive environment, the Bank continued to develop commercial policies designed to strengthen its relationships with existing customers and to acquire new clientele both in the Bank's traditional sector of business and in relation to other counterparties of the Public Administration.
The purchase of non-recourse receivables totals €2,657 million, with an increase compared to €2,536 million in 2015, partly due to the acquisition of new clientele.
In particular, the purchases of non-recourse receivables from counterparties of the National Healthcare System increased by €270 million, while purchases from other counterparties of the

non-healthcare Public Administration amount to €659 million compared to €937 million in 2015. Purchases of non-recourse tax receivables total €175 million compared to €25 million in 2015. Purchases made in Portugal stand at €51 million, or approximately €4 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 illustrates the total volumes, which include, besides the above purchases of non-recourse receivable, the turnover of Banca Farmafactoring's receivables management activity. The first purchases in Portugal were made in 2014.

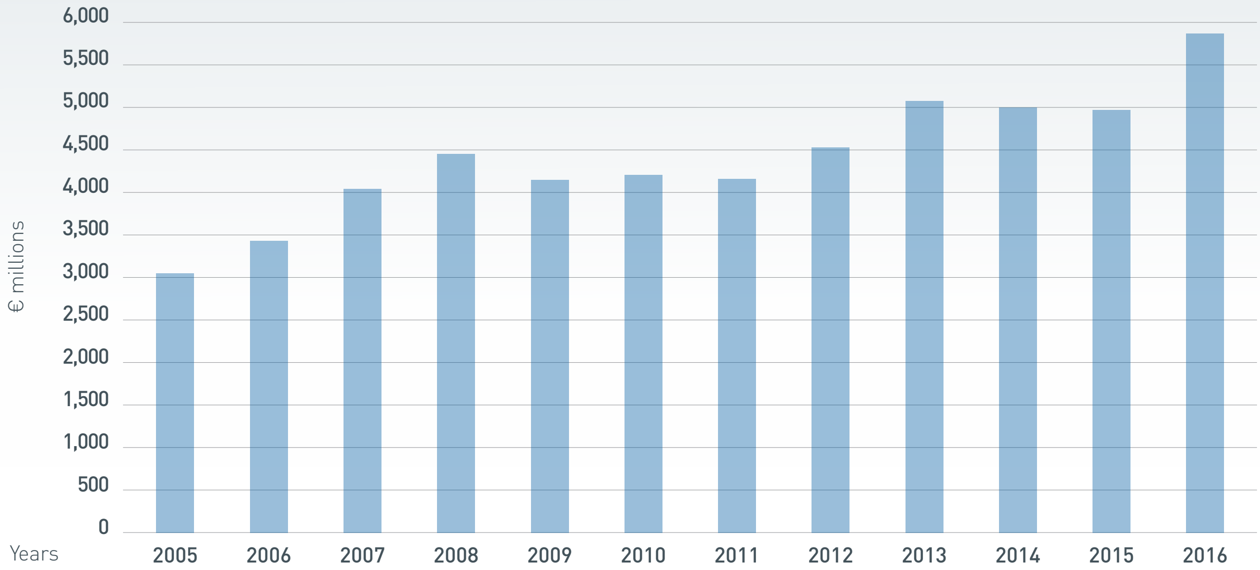
Overall volumes in 2016 total €5,528 million.

Total Volumes



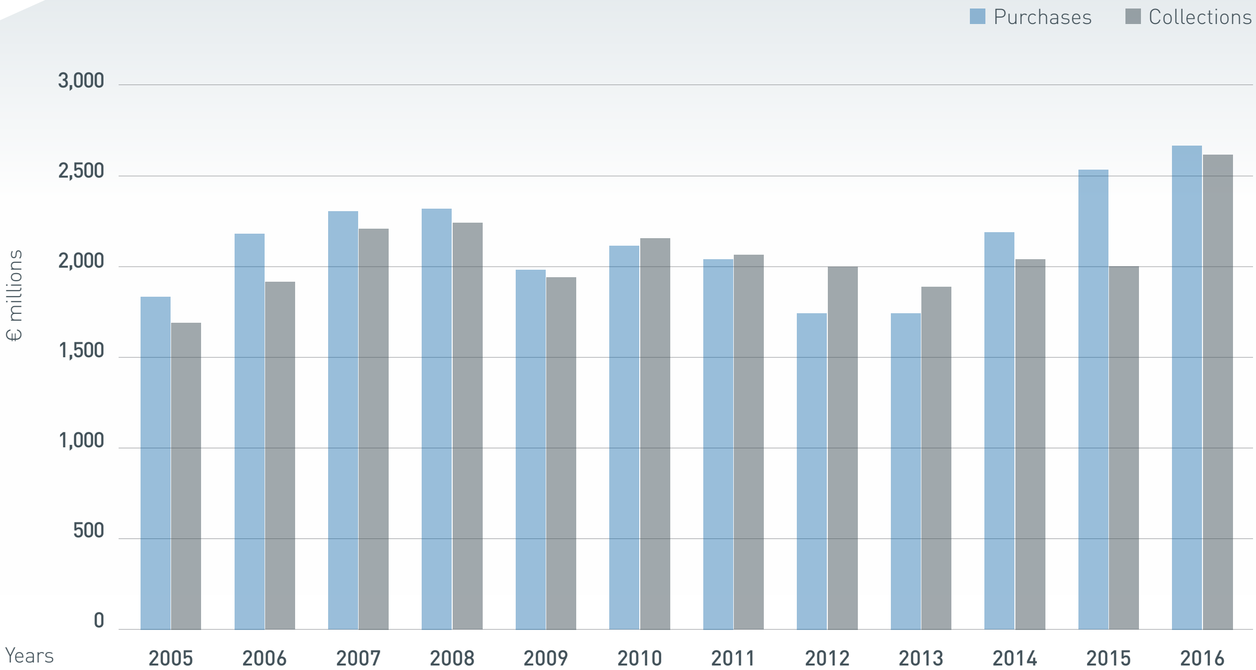
The following chart represents the total collections of the Bank.

Total Collections



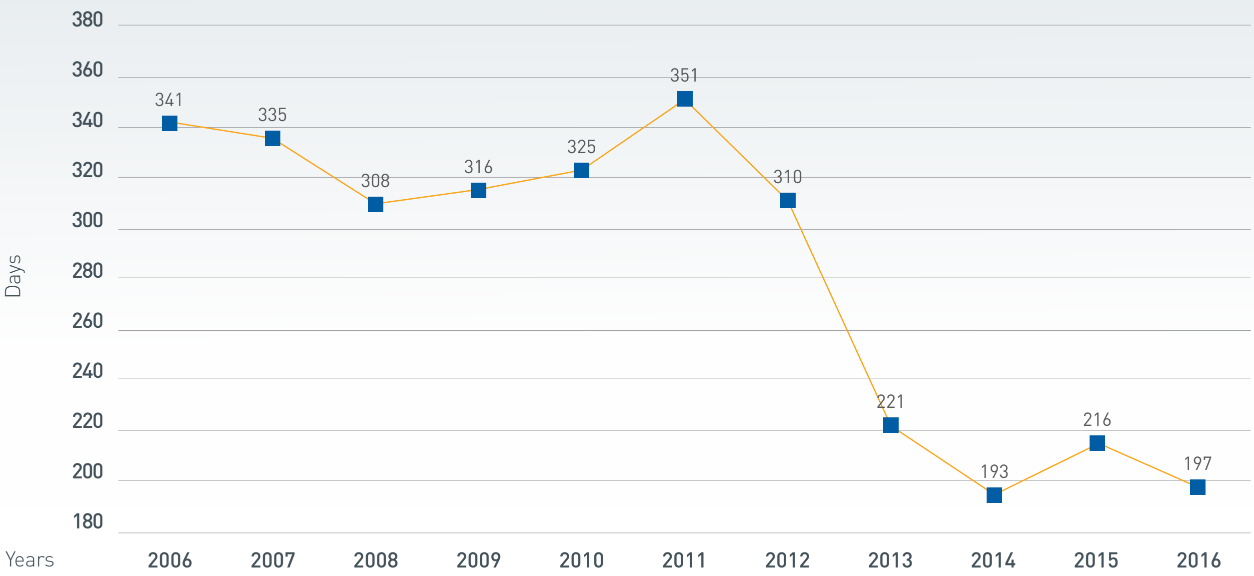
Purchases and collections on non-recourse receivables purchased amounted to €2,657 million and €2,619 million, respectively and the positive trend is illustrated below.

Non-recourse Receivables - Purchases and Collections



In 2016, the average days' sales outstanding for receivables managed by Banca Farmafactoring on its behalf and on behalf of third parties, for Italy, was 197 days, compared to 216 days in 2015. The improvement over last year can principally be ascribed to important payment agreements reached by the Bank with its main debtors, especially the National Healthcare System, and the increase, compared to the prior year, in the volumes purchased 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 €86.9 million, including €0.3 million collected in Portugal.

Late-payment interest accrued on non-recourse purchases of receivables is about €484 million. Of this interest, a total of €168 million was recorded in the income statement in the current and prior years.
Late-payment interest not yet collected at December 31, 2015 amounted to €415 million, of which €140 million was recorded in 2015 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.

Funding Activities

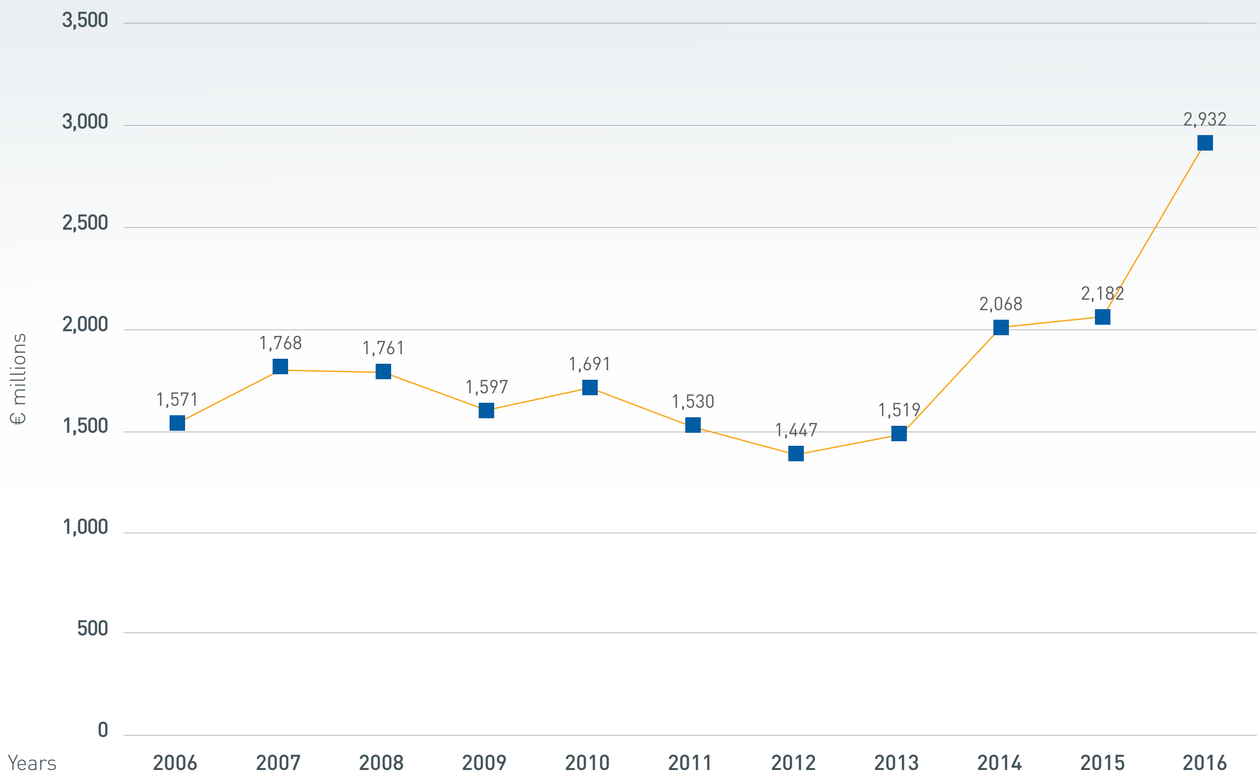
The Governing Council of the ECB has confirmed its support within the framework of the monetary policy and charged the staff of the Eurosystem to assess the various technical options to ensure that the implementation of the securities purchase program does not meet any obstacles.
As for banking credit, 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 level consistent with the definition of price stability.

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

The financial resources to support the ordinary activities of Banca Farmafactoring, net of the loan secured for the acquisition of the Magellan Group, total €2,932 million at December 31, 2016, thanks to the contribution from wholesale funding of €2,115 million and deposit-taking through the deposit accounts in Italy, Spain and Germany of €817 million.
Therefore, considering that the funding of Banca Farmafactoring at December 31, 2015 amounted to €2,182 million, the financial resources supporting ordinary activities recorded a total increase of €750 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 the Bank'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.

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 AFS portfolio (Available-for-Sale), with a fair value of €385 million;

• €1,596.5 million was classified in the HTM portfolio (Held-to-Maturity), 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 the Bank 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.

Banca Farmafactoring bond issue

On June 21, 2016, Banca Farmafactoring 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.
Banca Farmafactoring 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 Banca Farmafactoring, as well as from the counterparties of some loan agreements entered into by the Bank, 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 Banca Farmafactoring "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 the Bank 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 Banca Farmafactoring and the CRR Group.
The share capital of the Bank, at December 31, 2016, thus consists of 1,701,074 shares. The following table illustrates the shareholders of the Bank 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 2014, Banca Farmafactoring 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 Bank 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 Banca Farmafactoring 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 Bank 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 Banca Farmafactoring, 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 (line 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 the Bank and the Group, continuously verifying whether internal processes and procedures are adequate in preventing such risk and identifying the relevant risks to which the Bank and the subsidiaries are exposed; it measures, assesses and monitors the relevant risks; guarantees an overall and integrated vision of the risks to which the Bank and the subsidiaries are exposed, ensuring adequate disclosure to the corporate bodies of the Bank 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 the Bank 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 the Bank.

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 RAF (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 the Bank.
Specifically, the Internal Audit Function lent support to the Bank 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 the Bank'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 the Bank.
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 Body.

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 the Bank's Italian data centers.
• expansion of the private data transmission network between the Bank'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 the Bank'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 the Bank, 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 due from Banca Farmafactoring for 2016 was approximately €545 thousand and was paid in December 2016. This amount was recognized in item 150 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 Banca Farmafactoring 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.
Banca Farmafactoring'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.

The Bank has already 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 Banca Farmafactoring 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 Banca Farmafactoring, 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 150 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 Bank and best meet the criticality of the period, the number of staff was steadily increased over the years, as can be seen in the table below, divided by country.

	2014		2015		2016	
Category	ITALY	SPAIN	ITALY	SPAIN	ITALY	SPAIN
Senior executives and executives	9		11		14	
Managers	45		51	4	62	5
Others	85		104	2	117	4
Total by country	**139**	**0**	**166**	**6**	**193**	**9**
Total	**139**		**172**		**202**	

During the year 30 new resources were added. Such increase in headcount was aimed at reinforcing the management structure and adding qualified professional staff, in Italy and Spain.

(in € thousands)

Item	2014	2015	2016
Personnel costs	14,096	17,513	20,402

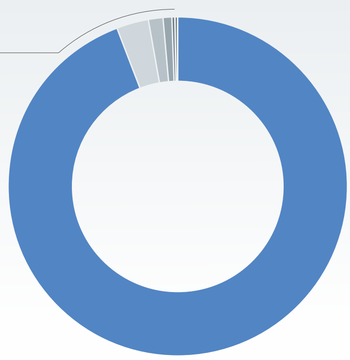
Personnel costs increased mainly as a result of the new staff additions during the current year and the increase in staff incentive payments linked to the results for the year.

Transactions with the Parent and Other Related Parties

As part of the process to simplify the chain of control of the Banca Farmafactoring Banking 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 Banca Farmafactoring, 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, the Bank 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 the Bank 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 Banca Farmafactoring's shareholders.



Share capital €130,982,698 fully paid-in

As for transactions with related parties and associated parties, the Banca Farmafactoring S.p.A. 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 Banca Farmafactoring Banking 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 the Bank to risks not adequately measured or supervised and the potential damage for the shareholders and stakeholders.
On the same date, the Banca Farmafactoring Banking Group adopted "Policies on internal control adopted by Banca Farmafactoring for the management of conflicts of interest" (so-called "Policy on the management of conflicts of interest"), which disciplines the control processes aimed at en-

suring 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 Banca Farmafactoring website in the section Governance – procedures and regulations – transactions with associated parties.
The Bank 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 Bank.
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 Banca Farmafactoring Banking 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 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 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 Financial Statements include the following:
• a report on operations;
• a balance sheet;
• an income statement;
• a statement of comprehensive income;
• a statement of changes in equity;
• a statement of cash flows;
• the notes to the Financial Statements.

Reclassified Balance Sheet

(in € thousands)

Items	12/31/2016	12/31/2015	Change
Assets			
Cash and cash balances	145	158	(13)
Financial assets held for trading	111	0	111
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	136,685	55,393	81,292
Due from customers	2,197,704	1,943,091	254,614
Hedging derivatives	529	0	529
Investments	115,487	6,297	109,190
Property, plant and equipment	12,152	12,576	(423)
Intangible assets	3,314	2,747	567
Tax assets	24,488	27,985	(3,497)
Other assets	4,367	4,290	77
Total Assets	**4,509,582**	**3,304,832**	**1,204,750**
Liabilities and Equity			
Due to banks	603,346	688,076	(84,730)
Due to customers	3,007,683	1,877,502	1,130,181
Debt securities issued	453,339	302,962	150,377
Financial liabilities held for trading	7	0	7
Hedging derivatives	176	0	176
Tax liabilities	71,212	67,242	3,970
Other liabilities	42,993	41,558	1,435
Provision for employee severance indemnities	867	883	(16)
Provisions for risks and charges	6,528	5,036	1,492
Equity	253,118	261,913	(8,794)
Profit for the year	70,314	59,659	10,654
Total Liabilities and Equity	**4,509,582**	**3,304,832**	**1,204,750**

Reclassified Income Statement

(in € thousands)

Items	2016	2015	Change
Interest and similar revenues	158,608	146,920	11,688
Interest and similar expenses	(24,793)	(29,098)	4,305
Net interest margin	**133,815**	**117,822**	**15,993**
Net fees and commissions	**4,882**	**7,965**	**(3,084)**
Dividends and similar income	8,022	0	8,022
Gains (losses) on trading	489	46	444
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	**147,912**	**126,682**	**21,230**
Administrative expenses	(54,493)	(43,444)	(11,049)
Net adjustments to/ writebacks on property, plant and equipment and intangible assets	(2,416)	(2,115)	(301)
Net provisions for risks and charges	(2,047)	(878)	(1,169)
Impairment losses/reversals on financial assets	(641)	(1,126)	485
Other operating income (expenses)	5,845	4,594	1,251
Profit before income taxes from continuing operations	**94,160**	**83,714**	**10,447**
Income taxes	(23,847)	(24,054)	207
Profit for the year	**70,314**	**59,659**	**10,654**

Comments on the Reclassified Balance Sheet

The key line items in the reclassified balance sheet are commented below.

Available-for-sale financial assets

(in € thousands)

Items	12/31/2016	12/31/2015	Change
Government securities – AFS	385,085	429,414	(44,329)
Investments	17	23	(6)
Equity securities	177	0	177
Total	**385,279**	**429,437**	**(44,158)**

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 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 - HTM	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 held-to-maturity (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 about €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	136,685	55,393	81,292
Due from customers	2,197,704	1,943,091	254,613
Of which due from financial institutions	*0*	*0*	*0*
Total	**2,334,389**	**1,998,484**	**335,905**

Due from banks mainly consists of current account balances of the Bank at the end of the year. The balance includes about €5,174 thousand in the mandatory reserve deposit with ICBPI, as Banca Farmafactoring 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 Bank.

Details of Due from customers are as follows:

(in € thousands)

Items	12/31/2016	12/31/2015	Change
Assignors – loan account	9,992	2,230	7,762
Non-recourse receivables purchased	1,766,223	1,711,200	55,023
Receivables purchased below face amount	51,826	22,696	29,130
Receivables due from subsidiaries	314,586	173,250	141,336
Other receivables	55,078	33,715	21,363
Total	**2,197,704**	**1,943,091**	**254,613**

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, the Bank 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.
These recovery percentages have not been applied to the late-payment interest of non-performing positions, which have been entirely written off.

The cumulative amount of late-payment interest to which the Bank is entitled but has not yet collected, on non-recourse receivables purchased (Provision for late-payment interest), is €484 million, of which only €168 million has been recognized in income in the current and prior years.
There is still an open securitization transaction on healthcare receivables structured with Deutsche Bank.
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 €7,194 thousand (a gross amount of €9,585 thousand), an increase over 2015, mainly due to the growth of receivables purchased from territorial entities. The ratio of net non-performing to total receivables from customers is 0.3%.

The Bank carried out an analysis of the receivables portfolio to identify any impairment of its financial assets.

This internal analysis 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 Bank, 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), the Bank 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 "Probability of Default" (PD) was performed by assigning a rating to the debtors (ASLs/AOs), corresponding to the credit rating assigned by the major rating agen-

cies 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 Bank's outstanding receivables.

The Bank 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 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 €52,622 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 €45,429 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 Bank does not have any positions classified as unlikely to pay.

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.

Gross non-performing receivables total €9.6 million, while net non-performing receivables amount to approximately €7.2 million, of which €0.9 million is due from *Fondazione Centro San Raffaele del Monte Tabor* in liquidation and in a composition agreement 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.
The Bank'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.

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)

Type	12/31/2016			12/31/2015		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Non-performing	**23,181**	**(15,988)**	**7,194**	**17,822**	**(15,315)**	**2,507**
Exposures with assignors	317	(284)	33	514	(281)	234
Exposures with account debtors	9,269	(2,107)	7,161	3,712	(1,438)	2,273
Provision for late-payment interest	13,596	(13,596)	0	13,596	(13,596)	0
Probable defaults	**0**	**0**	**0**	**0**	**0**	**0**
Doubtful	**0**	**0**	**0**	**0**	**0**	**0**
Exposures with assignors	0	0	0	0	0	0
Exposures with account debtors	0	0	0	0	0	0
Restructured	**0**	**0**	**0**	**0**	**0**	**0**
Exposures with assignors	0	0	0	0	0	0
Exposures with account debtors	0	0	0	0	0	0
Past due	**45,511**	**(82)**	**45,429**	**43,310**	**(76)**	**43,234**
Exposures with assignors	0	0	0	0	0	0
Exposures with account debtors	45,511	(82)	45,429	43,310	(76)	43,234
Total	**68,692**	**(16,070)**	**52,622**	**61,132**	**(15,392)**	**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			12/31/2015		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Impaired exposures purchased performing	53,809	(1,711)	52,098	46,210	(1,446)	44,764
Impaired exposures purchased impaired	971	(479)	492	812	(69)	743
Performing receivables	1,768,930	(3,471)	1,765,458	1,692,139	(3,750)	1,688,389
Total	**1,823,709**	**(5,661)**	**1,818,048**	**1,739,161**	**(5,265)**	**1,733,896**

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	58.79%
Land	3,685	0	0	3,685	30.32%
Plant	199	94	(104)	190	1.56%
Furniture and fixtures	192	33	(51)	174	1.43%
Electronic machines	851	547	(587)	810	6.67%
Other	177	(0)	(30)	149	1.22%
Total	**12,575**	**673**	**(1,097)**	**12,152**	**100.00%**

At the date of IFRS first-time adoption (January 1, 2005), buildings owned and used in 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	**24,488**	**27,985**	**(3,497)**
current	*20,749*	*25,091*	*(4,342)*
deferred	*3,739*	*2,894*	*845*
Tax liabilities	**71,212**	**67,242**	**3,970**
current	*22,307*	*20,464*	*1,843*
deferred	*48,905*	*46,778*	*2,127*

Current tax assets total €20,749 thousand and mainly include advance payments for IRES and IRAP taxes made by Banca Farmafactoring.
Current tax liabilities amount to €22,307 thousand and include the accrual for income taxes for the year.
Deferred tax liabilities amount to €48,905 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	603,346	688,076	(84,730)
Due to customers	3,007,683	1,877,502	1,130,181
Of which financial institutions	*313,747*	*378,487*	*(64,740)*
Total	**3,611,029**	**2,565,578**	**1,045,451**

"Due to banks" refers to loans secured from the banking system.
"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;
- the position with the special purpose vehicles SPV I deriving from the securitization transaction with Deutsche Bank for €81.9 million;
- a facility amounting to €113.3 million in existing collaboration from Unicredit Factoring S.p.A..

Due to customers includes €823.3 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 the Bank's securities portfolio.

Debt securities issued

On June 21, 2016, Banca Farmafactoring 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.

Provisions for risks and charges

At December 31, 2016, "Provisions for risks and charges" total €6,528 thousand. They mostly include accruals for "Long-term employee benefits" of €6,156 thousand.

(in € thousands)

Items	12/31/2015	Increases	Decreases	12/31/2016
Long-term employee benefits	4,671	2,041	(556)	6,156
Total	**4,671**	**2,041**	**(556)**	**6,156**

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

Comments on the Reclassified Income Statement

The statutory net profit for 2016 is €70.3 million, up about 18% compared to 2015.

Excluding non-recurring expenses of €8.7 million (net of the tax effect) and extraordinary dividends received from Farmafactoring España S.A. of €7.7 million (net of the tax effect), the statutory profit would have been €71.3 million, up 13% compared to 2015, when the profit, considering the non-recurring expenses incurred of €3.5 million, would have been €63.2 million.

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

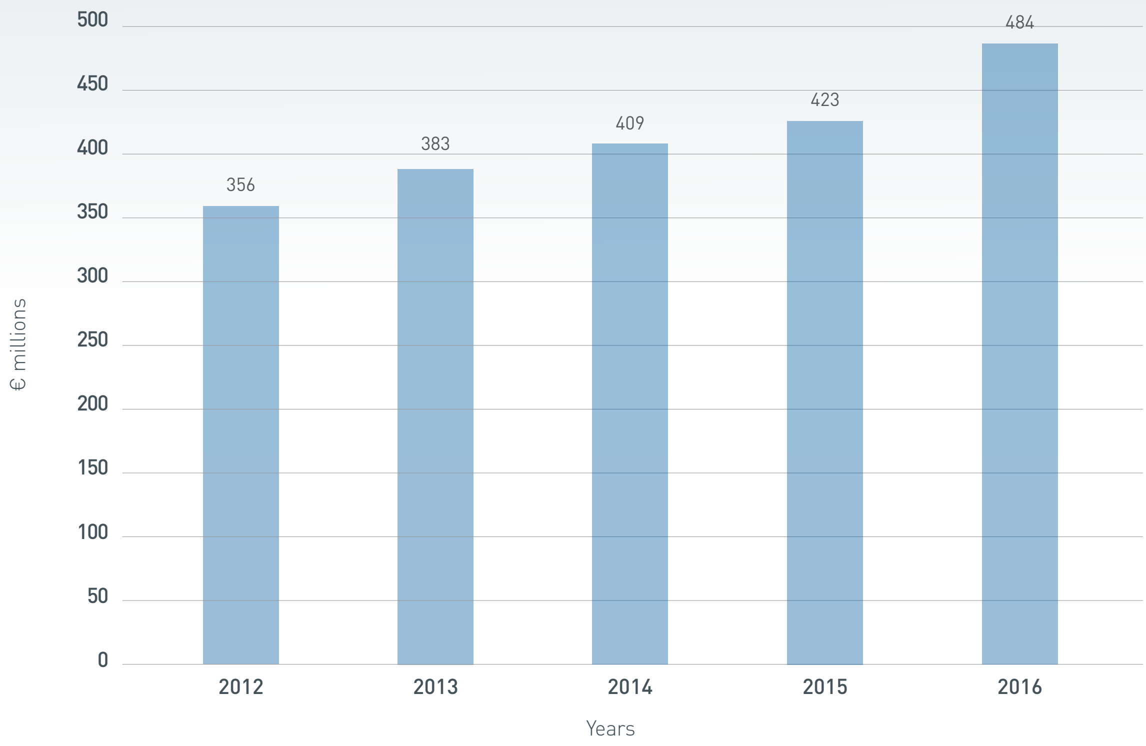
Operating income

(in € thousands)

Items	12/31/2016	12/31/2015	Change
Maturity commissions and late-payment interest on non-recourse receivables	147,151	135,384	11,767
Interest income on securities	3,994	5,848	(1,854)
Other interest	7,462	5,688	1,774
Interest income	**158,608**	**146,920**	**11,688**
Interest expense	**(24,793)**	**(29,098)**	**4,305**
Net fees and commissions	**4,882**	**7,965**	**(3,084)**
Dividends and similar income	**8,022**	**0**	**8,022**
Gains (losses) on trading	**489**	**46**	**444**
Fair value adjustments in hedge accounting	**(1)**	**(23)**	**22**
Gains (losses) on sale of AFS financial assets	**706**	**872**	**(166)**
Operating income	**147,912**	**126,682**	**21,230**

The recognition of maturity commissions and late-payment interest on purchases of non-recourse receivables in the 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 totals €147,151 thousand in 2016 compared to €135,384 thousand in 2015.
The following chart shows the cumulative amount of late-payment interest to which Banca Farmafactoring is entitled but has not yet collected on non-recourse receivables purchased (the Provision for late-payment interest). The total is €484 million compared to €423 million in the prior year. As of December 31, 2016 an amount of €168 million has been recognized in income in the current and prior years.

Provision for Late-Payment 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 (AFS) and Held-to-Maturity (HTM) 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.

Interest expenses decreased by €4.3 million. The reduction 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 Bank's growth.

Net fees and commissions

The income from net fees and commissions shows a decrease of approximately €3,084 thousand compared to the prior year as presented in the following table.

(in € thousands)

Items	12/31/2016	12/31/2015	Change	Change %
Fee and commission income	7,994	8,321	(327)	(3.93%)
Fee and commission expenses	(3,112)	(356)	(2,757)	774.97%
Net fees and commissions	**4,882**	**7,965**	**(3,084)**	**(38.71%)**

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 Banca Farmafactoring, as well as from the counterparties of some loan agreements entered into by the Bank, 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 €489 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.

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.
The Bank, 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).

The Bank 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 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, Banca Farmafactoring 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.

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

(in € millions, unless otherwise stated)

Items	2016	2015	2014 (2)
Net interest margin	133.8	117.8	202.0
Operating income	147.9	126.7	212.2
EBTDA	97.2	87.0	184.7
Profit for the year	**70.3**	**59.7**	**122.2**
R.O.E. (Return On Equity) (%)	**27.8%**	**22.8%**	**65.0%**
Operating income / Non-recourse volumes (%)	5.6%	5.0%	9.7%
Financial expenses / Maturity commissions (%)	45.0%	55.0%	65.6%
Net interest margin / Interest income and similar revenues (%)	84.4%	80.2%	81.8%
Non-performing (net of impairment losses) / Factoring receivables (%)	0.40%	0.15%	0.23%
Own Funds / Weighted factoring receivables (%) (1)	35.4%	39.5%	45.9%
Financial leverage	17.8	12.6	16.1
Equity	**323.4**	**321.6**	**310.2**
Own Funds	**225.0**	**249.6**	**259.5**

(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.

Prospective review

The considerations described before are borne out by the Business Plan for the three years 2014 - 2017, approved by the Board of Directors of the Bank 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, in the various countries in which the Group operates, 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.

<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;
- 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 Bank and the Banking 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 Bank 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%).

Banca Farmafactoring'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 Bank. The CET1 Capital Ratio, the Tier 1 Capital Ratio and the Total Capital Ratio are equal to 15.7%.

(in € millions, unless otherwise stated)

Details	Total 12/31/2016	Total 12/31/2015
Common Equity Tier 1 Capital - CET1	225	**250**
Additional Tier 1 Capital	0	0
Tier 2 Capital	0	0
Own Funds	**225**	**250**
Risk-weighted assets – RWA	1,430	1,199
CET1 Capital Ratio (%)	**15.7%**	**20.8%**
Tier 1 Capital Ratio (%)	**15.7%**	**20.8%**
Total Capital Ratio (%)	**15.7%**	**20.8%**

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 Bank 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 Banca Farmafactoring Banking 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 Banca Farmafactoring 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 Banca Farmafactoring Banking 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.

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.

Motion for the Appropriation of Profit

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 established by law;
- €70,297,179 to the shareholders.

A motion is also put forward to appropriate €1,828,359 to the shareholders to be drawn from retained earnings, so that the total dividends proposed 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 FINANCIAL STATEMENTS AT DECEMBER 31, 2016

Balance Sheet

(in euros)

Assets	12/31/2016	12/31/2015
10. Cash and cash balances	145,477	158,477
20. Financial assets held for trading	110,869	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	136,684,930	55,392,518
70. Due from customers	2,197,704,207	1,943,090,669
80. Hedging derivatives	529,027	0
100. Equity investments	115,487,012	6,296,585
110. Property, plant and equipment	12,152,236	12,575,546
120. Intangible assets	3,313,889	2,746,763
of which		
- goodwill		
130. Tax assets	24,487,905	27,985,019
a) current tax assets	*20,749,196*	*25,091,354*
b) deferred tax assets	*3,738,709*	*2,893,665*
of which for purpose of Law 214/2011	*748,650*	*546,940*
150. Other assets	4,367,201	4,290,105
Total Assets	**4,509,582,487**	**3,304,832,136**

(in euros)

Liabilities and Equity	12/31/2016	12/31/2015
10. Due to banks	603,346,026	688,075,997
20. Due to customers	3,007,682,965	1,877,502,235
30. Debt securities issued	453,338,615	302,962,115
40. Financial liabilities held for trading	6,568	0
60. Hedging derivatives	176,037	0
80. Tax liabilities	71,212,011	67,241,973
a) current tax liabilities	*22,306,933*	*20,463,992*
b) deferred tax liabilities	*48,905,078*	*46,777,981*
100. Other liabilities	42,993,236	41,558,315
110. Provision for employee severance indemnities	867,129	883,124
120. Provisions for risks and charges	6,527,722	5,036,204
a) pension fund and similar obligations	*6,156,254*	*4,671,245*
b) other provisions	*371,468*	*364,959*
130. Revaluation reserves	4,494,859	4,183,573
160. Reserves	117,640,902	126,829,143
180. Issued capital	130,982,698	130,900,000
200. Profit for the year	70,313,719	59,659,457
Total Liabilities and Equity	**4,509,582,487**	**3,304,832,136**

Income Statement

(in euros)

Items	2016	2015
10. Interest income and similar revenues	158,607,797	146,919,895
20. Interest expense and similar expenses	(24,792,800)	(29,098,152)
30. Net interest margin	**133,814,997**	**117,821,743**
40. Fee and commission income	7,993,877	8,320,988
50. Fee and commission expenses	(3,112,321)	(355,704)
60. Net fees and commissions	**4,881,556**	**7,965,284**
70. Dividends and similar income	8,021,500	0
80. Gains (losses) on financial assets and liabilities held for trading	489,376	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	**147,911,981**	**126,681,821**
130. Net losses/recoveries on impairment:		
a) receivables	*(576,818)*	*(1,125,531)*
b) available-for-sale financial assets	*(63,885)*	*0*
140. Net profit from financial activities	**147,271,278**	**125,556,290**
150. Administrative costs:		
a) personnel costs	*(20,401,546)*	*(17,512,978)*
b) other administrative expenses	*(34,091,615)*	*(25,930,694)*
160. Net provisions for risks and charges	(2,047,036)	(878,471)
170. Net writeoffs/writebacks on property, plant and equipment	(1,097,311)	(1,092,157)
180. Net writeoffs/writebacks on intangible assets	(1,318,370)	(1,022,423)
190. Other operating income (expenses)	5,845,011	4,594,006
200. Operating costs	**(53,110,867)**	**(41,842,717)**
250. Profit (loss) before tax from continuing operations	**94,160,411**	**83,713,573**
260. Income taxes on profit (loss) from continuing operations	(23,846,692)	(24,054,116)
270. Profit (loss) after tax from continuing operations	**70,313,719**	**59,659,457**
290. Profit for the year	**70,313,719**	**59,659,457**

Statement of Comprehensive Income

(in euros)

Items	2016	2015
10. Profit for the year	**70,313,719**	**59,659,457**
Other comprehensive income after tax not reclassified to profit or loss		
20. Property, plant and equipment 30. Intangible assets 40. Defined benefit plans 50. Non-current assets classified as held for sale 60. Portion of revaluation reserves from investments valued at equity	 (23,955)	 (121,102)
Other comprehensive income after tax that may be reclassified to profit or loss		
70. Hedges of foreign investments 80. Exchange differences 90. Cash flow hedges 100. Available-for-sale financial assets 110. Non-current assets classified as held for sale 120. Valuation reserves from investments accounted for using the equity method	 345,560 (10,319)	 26,669 243,082
130. Total other comprehensive income, net of taxes	**311,286**	**148,649**
140. Comprehensive income (Items 10+130)	**70,625,005**	**59,808,106**

Statement of Changes in Equity

(in euros)

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							Comprehensive income 2016	Equity at 12/31/2016
							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	Derivative on own shares	Stock options		
Issued capital:														
a) ordinary shares	130,900,000		130,900,000											130,900,000
b) other shares							82,698							82,698
Share premiums														
Reserves														
a) from profit	126,829,143		126,829,143			(9,188,241)								117,640,902
b) other														
Revaluation reserves	4,183,573		4,183,573										311,286	4,494,859
Equity instruments														
Treasury shares														
Profit for the year	59,659,457		59,659,457		(59,659,457)								70,313,719	70,313,719
Equity	**321,572,173**		**321,572,173**	**0**	**(59,659,457)**	**(9,188,241)**	**82,698**						**70,625,005**	**323,432,178**

(in euros)

at December 31, 2015

	At December 31, 2014	Change in opening balance	At January 1, 2015	Appropriations of profit from previous year		Changes during the year							Comprehensive income 2015	Equity at 12/31/2015
							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	Derivatives on own shares	Stock options		
Issued capital:														
a) ordinary shares	130,900,000		130,900,000											130,900,000
b) other shares														
Share premiums														
Reserves														
a) from profit	53,076,987		53,076,987	73,752,156										126,829,143
b) other														
Revaluation reserves	4,034,924		4,034,924										148,649	4,183,573
Equity instruments														
Treasury shares														
Profit for the year	122,202,156		122,202,156	(73,752,156)	(48,450,000)								59,659,457	59,659,457
Equity	**310,214,067**		**310,214,067**		**(48,450,000)**								**59,808,106**	**321,572,173**

Statement of Cash Flows

(in euros)

	Year ended 12/31/2016	Year ended 12/31/2015
A. OPERATING		
1. Operations	**74,797,078**	**63,777,210**
- profit or loss for the year (+/-)	70,313,719	59,659,457
- capital gains/losses on financial assets/liabilities held for trading and on assets/liabilities designated at fair value through profit and loss (-/+)		
- capital gains/losses on hedging operations (-/+)		
- net losses/recoveries on impairment (+/-)	576,818	1,125,531
- net write-offs/write-backs on tangible and intangible assets (+/-)	2,415,023	2,113,750
- provisions and other incomes/expenses (+/-)	1,491,517	878,471
- unpaid taxes and tax credits (+/-)		
- impairment/write-backs on discontinued operations net of tax effects (-/+)		
- other adjustments (+/-)		
2. Liquidity generated/absorbed by financial assets	**1,096,016,245**	**301,757,382**
- financial assets held for trading	110,869	-
- financial assets designated at fair value		
- available-for-sale financial assets	(44,147,483)	59,014,854
- due from banks: at sight	81,292,412	(19,325,839)
- due from banks: other		
- due from customers	255,190,356	397,108,533
- other assets	803,570,091	(135,040,165)
3. Liquidity generated/absorbed by financial liabilities	**1,201,720,433**	**289,376,862**
- due to banks: at sight	(84,729,971)	(280,185,232)
- due to banks: other		
- due to customers	1,130,180,730	561,793,259
- debt securities issued	150,376,500	1,049,803
- financial liabilities held for trading	6,568	(45,760)
- financial liabilities designated at fair value		
- other liabilities	5,886,606	6,764,793
Net liquidity generated/absorbed by operating activities	**180,501,266**	**51,396,690**
B. INVESTING ACTIVITIES		
1. Liquidity generated by	-	-
- sales of equity investments		
- collected dividends on equity investments		
- 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	**(111,749,266)**	**(2,791,157)**
- purchases of equity investments	(109,190,427)	(2,686)
- purchases of held-to-maturity financial assets		
- purchases of property, plant and equipment	(673,344)	(1,071,770)
- purchases of intangible assets	(1,885,495)	(1,716,702)
- purchases of sales/purchases of subsidiaries and divisions		
Net liquidity generated/absorbed by investing activities	**(111,749,266)**	**(2,791,157)**
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- distribution of dividends and other purposes	(68,765,000)	(48,450,000)
Net liquidity generated/absorbed by funding activities	**(68,765,000)**	**(48,450,000)**
NET LIQUIDITY GENERATED/ABSORBED DURING THE YEAR	**(13,000)**	**155,533**

Reconciliation

(in euros)

	Amount	
	12/31/2016	12/31/2015
Cash and cash balances at the beginning of the year	158,477	2,944
Net liquidity generated/absorbed during the year	(13,000)	155,533
Cash and cash balances: effect of exchange rate changes		
Cash and cash balances at the end of the year	**145,477**	**158,477**

Notes to the Financial Statements

The Notes are arranged in the following order:

Part A - Accounting Policies
Part B - Balance Sheet
Part C - Income Statement
Part D - Comprehensive Income
Part E - Risks and related Risk Management Policies
Part F - Equity
Part G - Business Combinations
Part H - Related Party Transactions
Part I - Share-based Payments

Part A – Accounting Policies

A.1 – GENERAL REMARKS

Section 1 - Statement of compliance with the international accounting standards

The 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 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 financial statements include the Balance sheet, the Income statement, the Statement of Comprehensive income, the Statement of cash flows the Statement of changes in Equity, and the notes to the financial statements and are accompanied by the directors' report on operations.
The financial statements agree with the accounting records.
In accordance with the provisions of Article 5, Section 2, of Legislative Decree No. 38 of February 28, 2005, the 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 Bank is exposed that

provide evidence of problems regarding the Bank's ability to meet its obligations in the foreseeable future.

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 - 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 4 - Other issues

Use of estimates and assumptions in the preparation of the Financial Statements

In accordance with the IFRSs, the development of estimates by management is a prerequisite for the preparation of the 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 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 FINANCIAL STATEMENTS

Information about the accounting principles adopted to prepare the 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.

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 130 "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 disposals and repurchases of available-for-sale financial assets".
Fair value changes recognized under item 130 "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 130 "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 nonrecurring 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 Bank also included the estimate of late-payment interest in the calculation of amortized cost, taking into account that:
• the Bank'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 Bank'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 Bank 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 Banca Farmafactoring, 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.

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 Bank, 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%.

The Bank assesses the financial assets classified under receivables and if any objective impairment of individual positions is identified, they are classified in non-performing receivables and an analytical assessment is performed.

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.

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.

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 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 (zloty), 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 material to the financial statements of the Bank, due to the fact that all the changes in the value of the loans arising from euro-zloty and euro-koruna exchange rate fluctuations are recognized in the income statement.

Measurement criteria
Derivative hedging instruments are recognized and measured at their fair value.
When a financial instrument is designated as a hedge, the Bank 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.

7 - Equity investments

Recognition criteria
Equity investments are recognized at the settlement date if negotiated as a regular-way settlement, otherwise at the trade date.
On initial recognition equity investments are recorded at cost.

Classification criteria
Equity investments mean investments in other companies, generally represented by shares or quotas, classified as controlling investments or associate investments.
More specifically:
• subsidiaries: an entity over which the parent exercises control, meaning the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities;
• associates: an entity over which the investor has significant influence and is not a subsidiary or a joint venture for the investor.

Significant influence means that an investment is held of 20% or more of the voting power (directly or through subsidiaries) at the shareholders' meeting of the investee.

Measurement criteria and recognition of income components
Equity investments in unconsolidated subsidiaries are measured at cost and adjusted by any impairment in the carrying amount.
If there is objective evidence that an investment has been impaired, an impairment test is performed and the investment's carrying amount is compared with its estimated recoverable amount, considering the present value of future cash flows expected to originate from the investment, including the disposal amount of the asset.
When there is insufficient information, the value in use is considered to be the shareholders' equity of the company.
If the recoverable amount is lower than the carrying amount in the consolidated financial statements, the difference is recorded in item 210 "Gains (losses) on investments".
If the reasons for impairment are no longer applicable following an event subsequent to the recognition of impairment, the relative reinstatements are recorded in the same income statement item up to the cost of the investment previous to the impairment.
Dividends from equity investments are recorded in the year in which they are declared under "Dividends and similar income".

Derecognition criteria
Equity investments are derecognized when the contractual rights to the cash flows from the investments expire or when the investments are sold, with the transfer of substantially all the risks and rewards deriving from their ownership.

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 150 b) "Other administrative expenses," if they refer to assets used in the Bank'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 Bank, 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 Banca Farmafactoring, 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 owned buildings used by the Bank 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 240 "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.

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 Bank, 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 240 "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.

17 - 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.

On December 5, 2016, the Banca Farmafactoring 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 Bank also included the estimate of late-payment interest in the calculation of amortized cost.
The Bank 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 Banca Farmafactoring, 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.

• 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.

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		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading		111				
2. Financial assets designated at fair value						
3. Available-for-sale financial assets	385,086	177	17	429,414		23
4. Hedging derivatives		529			0	
5. Property, plant and equipment						
6. Intangible assets						
Total	**385,086**	**817**	**17**	**429,414**	**0**	**23**
1. Financial liabilities held for trading		7				
2. Financial liabilities designated at fair value						
3. Hedging derivatives		176				
Total		**183**				

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

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. 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		-	**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	136,685			136,685	55,393			55,393
3. Due from customers	2,197,704			2,197,704	1,943,091			1,943,091
4. Property, plant and equipment held for investment purposes								
5. Non-current assets and disposal groups of assets held for sale								
Total	**3,963,709**	**1,632,899**		**2,334,389**	**2,821,342**	**826,912**		**1,998,483**
1. Due to banks	603,346			603,346	688,076			688,076
2. Due to customers	3,007,683			3,007,683	1,877,502			1,877,502
3. Debt securities issued	453,339	447,578			302,962	302,277		
4. Liabilities associated with assets held for sale								
Total	**4,064,368**	**447,578**		**3,611,029**	**2,868,540**	**302,277**		**2,565,578**

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

Part B – Balance Sheet

All amounts are stated in thousands of euros.

ASSETS

Section 1 – Cash and cash balances – Item 10
€145 thousand

1.1 Cash and cash balances: breakdown

(in € thousands)

	12/31/2016	12/31/2015
a) Cash	2	1
b) Unrestricted deposits with central banks	143	157
Total	**145**	**158**

The balance represents the cash on hand and the account that Banca Farmafactoring has with the Bank of Italy, which amounts to €143 thousand.

Section 2 – Financial assets held for trading - Item 20
€111 thousand

2.1 Financial assets held for trading: breakdown by type

(in € thousands)

Items/Amounts	Total 12/31/2016			Total 12.12.2015		
	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		111			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**	**111**	**0**	**0**	**0**	**0**
Total (A+B)	**0**	**111**	**0**	**0**	**0**	**0**

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

(in € thousands)

Items/Amounts 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 issuers:		
- 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	111	0
b) Customers		
Total B	**111**	**0**
Total (A+B)	**111**	**0**

The financial instruments recorded in this category total €111 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.

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.
Banca Farmafactoring'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 of October 26, 2016 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 Banca Farmafactoring 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 Nomisma S.p.A. are as follows:

(in euros, unless otherwise stated)

Description	Carrying amount (€/cent)	No. of shares purchased	Nominal value per share (€/cent)	Percentage of investment holding
Nomisma S.p.A.	17,335,18	72,667	0.239	0.25%

(in euros, unless otherwise stated)

Head office	Bologna - Strada Maggiore 44
Share capital	€6,963,500 fully paid-in.
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			0	
2.2 Carried at cost			17			23
3. Units in investment funds						
4. Loans						
Total	**385,263**	**177**	**17**	**429,415**	**0**	**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	0
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 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 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 fair value	**1,632,899**	**826,912**

Section 6 – Due from banks– Item 60
€136,685 thousand

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

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	128,859			128,859	49,605			49,605
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	**136,685**			**136,685**	**55,393**			**55,393**

Key
FV = *fair value*
CA = carrying amount

The restricted deposits mainly include €5,174 thousand in the mandatory reserve deposit with ICBPI, as Banca Farmafactoring 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 Bank.

There are no impaired assets in this item.

Section 7 – Due from customers – Item 70
€2,197,704 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 Bank 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.

The cumulative amount of late-payment interest to which Banca Farmafactoring is entitled but has not yet collected, on non-recourse receivables purchased (the Provision for late-payment interest), is €484 million, of which only €168 million was recognized in income in the current and prior years.

7.1 Due from customers: breakdown by type

The breakdown is as follows:

• "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 €1,678,521 thousand.
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 €52,131 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 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. The Bank'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 €466,561 thousand and mainly include:
  - earned late-payment interest of about €86,890 thousand. 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 €168 million of late-payment interest recorded in the Income statement, referring to the provision existing at December 31, 2016, €86.9 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.

(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	**2,145,082**	**492**	**52,130**				**1,897,350**	**743**	**44,998**			
1. Current accounts												
2. Reverse repos												
3. Mortgages												
4. Credit cards, personal loans, garnishment of wages												
5. Finance leases												
6. Factoring	1,678,521	492	50,771				1,606,028	743	44,243			
7. Other loans	466,561		1,359				291,322		755			
Debt securities												
8. Structured securities												
9. Other												
Total (carrying amount)	**2,145,082**	**492**	**52,130**				**1,897,350**	**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)

Types of transactions/ Amounts	12/31/2016			12/31/2015		
	Performing	Impaired		Performing	Impaired	
		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:	**2,145,082**	**492**	**52,130**	**1,897,350**	**743**	**44,998**
a) Governments	408,700		4,662	281,571		31
b) Other public entities	1,325,303	492	39,756	1,391,990	743	10,029
c) Other subjects						
- non-financial companies	*29,425*		*6,530*	*6,491*		*33,707*
- financial companies	*367,508*			*202,182*		
- insurance companies						
- other	*14,147*		*1,184*	*15,116*		*1,231*
Total	**2,145,082**	**492**	**52,130**	**1,897,350**	**743**	**44,998**

Section 8 – Hedging derivatives - Item 80

€529 thousand

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

(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		0		0
2) Cash flows		527		80,508		0		0
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total	**0**	**529**	**0**	**81,618**	**0**	**0**	**0**	**0**

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

€115,487 thousand

Equity investment total €115.5 million and include the wholly-owned investments in Magellan and Farmafactoring España since Banca Farmafactoring holds 100% of share capital.

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.
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.
The investment amounts to €109.2 million, including €22.1 million of goodwill.
The subsidiary reported a profit for the entire year of €6.9 million. The contribution to the income statement of the Banca Farmafactoring Group for the seven months from the date of acquisition was €2.9 million.

The investment in Farmafactoring España is €6.3 million and refers to the share capital, and incidental charges in connection with setting up the company and starting-up activities on the Spanish market.

10.1 Equity investments: information on investment relationships

Name	Head office	Location of operations	Investment holding %	Voting rights %
A. Companies, wholly-owned				
1. Farmafactoring España S.A.U.				
2. Magellan SA	Madrid (Spain)	Madrid (Spain)	100%	100%
B. Jointly controlled companies	Lodz (Poland)	Lodz (Poland)	100%	100%
C. Companies over which significant influence is exercised				

10.5 Investments: year-over-year changes

(in € thousands)

	Total 12/31/2016	Total 12/31/2015
A. Beginning balance	**6,297**	**6,294**
B. Increases		
B.1 Purchases		
B.2 Impairment reversals		
B.3 Revaluations		
B.4 Other changes		
a) Business combinations	109,190	3
C. Decreases		
C.1 Sales		
C.2 Impairment losses		
C.3 Other changes		
D. Ending balance	**115,487**	**6,297**
E. Total revaluations		
F. Total adjustments		

Section 11 - Property, plant and equipment – Item 110
€12,152 thousand

11.1 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	221	252
d) electronic systems	810	851
e) other	291	317
2. Leased assets acquired under finance leases		
a) land		
b) buildings		
c) furniture and fixtures		
d) electronic systems		
e) other		
Total	12,152	12,576

11.5 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**	**2,399**	**6,090**	**5,241**	**34,243**
A.1 Total net adjustment in value		(9,358)	(2,147)	(5,239)	(4,924)	(21,667)
A.2 Net beginning balance	**3,685**	**7,470**	**252**	**851**	**317**	**12,576**
B. Increases:						
B.1 Purchases			33	547	94	673
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						
C. Decreases:						
C.1 Disposals				(1)		(1)
C.2 Depreciation		(325)	(64)	(587)	(120)	(1,097)
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						
D. Net ending balance	**3,685**	**7,145**	**221**	**809**	**291**	**12,152**
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**	**2,432**	**6,636**	**5,335**	**34,912**
E. Carried at cost	**3,685**	**16,824**	**2,432**	**6,636**	**5,335**	**34,912**

At the date of IFRS first-time adoption (January 1, 2005), buildings owned by Banca Farmafactoring 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 Banca Farmafactoring is not the owner of the entire building.

Section 12 - Intangible assets – Item 120

€3,314 thousand

12.1 Intangible assets: breakdown by type of asset

(in € thousands)

Assets/Amounts	Total 12/31/2016		Total 12/31/2015	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill				
A.2 Other intangible assets				
A.2.1 Assets measured at cost:				
a) intangible assets generated internally				
b) other	3,314		2,747	
A.2.2 Assets measured at fair value:				
a) intangible assets generated internally				
b) other				
Total	**3,314**	**0**	**2,747**	**0**

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.

12.2 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				1,885		1,885
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						
C. **Decreases**						
C.1 Disposals						
C.2 Adjustments for						
- amortization				(1,318)		(1,318)
- 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						
D. **Net ending balance**	**0**	**0**	**0**	**3,314**	**0**	**3,314**
D.1 Net adjustment in value						
E. **Gross ending balance**	**0**	**0**	**0**	**3,314**	**0**	**3,314**
F. **Carried at cost**	0	0	0	3,314	0	3,314

Key:
DEF. = finite
INDEF. = indefinite

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

Section 13 - Tax assets and liabilities – Item 130 of assets and Item 80 of liabilities

Current tax assets amount to €20,749 thousand and mainly include advance payments for IRES and IRAP taxes made by Banca Farmafactoring.
Current tax liabilities amount to €22,307 and include the accrual for income taxes for the year of the Bank.

13.1 Deferred tax assets: breakdown
€3,739 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.

13.2 Deferred tax liabilities: breakdown
€48,905 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.

13.3 Change in deferred tax assets (through the income statement)
€3,392 thousand

(in € thousands)

	Total 12/31/2016	Total 12/31/2015
1. Beginning balance	**2,523**	**2,147**
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	1,563	556
2.2 New taxes or tax rate increases		
2.3 Other		
3. Decreases		
3.1 Deferred tax assets derecognized during the year		
a) reversals	(694)	(179)
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		
4. Ending balance	**3,392**	**2,523**

13.3.1 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**

13.4 Change in deferred tax liabilities (through the income statement)
€48,502 thousand

(in € thousands)

	Total 12/31/2016	Total 12/31/2015
1. Beginning balance	**46,504**	**41,591**
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		
3. Decreases		
3.1 Deferred tax liabilities derecognized during the year		
a) reversals	(218)	(288)
b) due to changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Ending balance	**48,502**	**46,504**

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

(in € thousands)

	Total 12/31/2016	Total 12/31/2015
1. Beginning balance	**370**	**352**
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	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**	**370**

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

(in € thousands)

	Total 12/31/2016	Total 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 15 - Other assets – Item 150

€4,367 thousand

15.1 Other assets: breakdown

(in € thousands)

Details	Total 12/31/2016	Total 12/31/2015
Security deposits	3	3
Other receivables	3,687	3,247
Accrued income and prepaid expenses	677	1,040
Total	**4,367**	**4,290**

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.

LIABILITIES AND EQUITY

Section 1 – Due to banks – Item 10

€603,346 thousand

1.1 Due to banks: breakdown by type

(in € thousands)

Types of transactions/Amounts	Total 12/31/2016	Total 12/31/2015
1. Due to central banks	0	206,000
2. Due to banks		
2.1 Current accounts and demand deposits		
2.2 Restricted deposits	603,346	482,076
2.3 Loans		
2.3.1 Repos		
2.3.2 Other		
2.4 Payables in respect of commitments to repurchase treasury shares		
2.5 Other payables		
Total	**603,346**	**688,076**
Fair value - Level 1		
Fair value - Level 2		
Fair value - Level 3	**603,346**	**688,076**
Total fair value	**603,346**	**688,076**

"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
€3,007,683 thousand

2.1 Due to customers: breakdown by type

(in € thousands)

Types of transactions/Amounts	Total 12/31/2016	Total 12/31/2015
1. Current accounts and demand deposits	79,337	27,022
2. Restricted deposits	743,984	395,363
3. Loans		
3.1 Repos	1,809,044	920,471
3.2 Other loans	231,790	267,014
4. Payables in respect of commitments to repurchase treasury shares		
5. Other payables	143,528	267,633
Total	**3,007,683**	**1,877,502**
Fair value - Level 1		
Fair value - Level 2		
Fair value - Level 3	**3,007,683**	**1,877,502**
Total fair value	**3,007,683**	**1,877,502**

Due to customers includes €823.3 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 Bank'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
€453,339 thousand

3.1 Debt securities issued: breakdown by type

(in € thousands)

Type of Securities/ Amounts	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	453,339	447,578			302,962	302,277		
2. Other securities								
2.1 structured								
2.2 other								
Total	**453,339**	**447,578**	**0**	**0**	**302,962**	**302,277**	**0**	**0**

On June 21, 2016, Banca Farmafactoring 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 the Bank, since the sale did not meet the requirements for derecognition, i.e., the transfer of risks and benefits.

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	Total 12/31/2016					Total 12/31/2015				
	NV	FV			FV*	NV	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		7			0		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	**5,215**	**0**	**7**	**0**	**7**	**0**	**0**	**0**	**0**	**0**
Total (A + B)	**5,215**	**0**	**7**	**0**	**7**	**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
NV = 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.

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			NV 12/31/2016	Fair value 12/31/2015			NV 12/31/2015
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1) Fair value		176		74,598		0		0
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:
NV = nominal 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 investm.
	Specific					Generic	Specific	Generic	
	interest rate risk	exchange rate risk	credit risk	price risk	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 13 – Tax assets and liabilities" of the Assets.

Section 10 – Other liabilities – Item 100

€42,993 thousand

10.1 Other liabilities: breakdown

(in € thousands)

Details	Total 12/31/2016	Total 12/31/2015
Payables to suppliers	2,617	1,406
Invoices to be received	6,942	7,113
Payables to the tax authorities	3,698	2,782
Payables to social security agencies	543	505
Payables to employees	3,994	3,154
Payables for receivables management	1,683	0
Collections pending allocation	13,569	23,494
Other payables	9,812	3,090
Accrued liabilities and deferred income	137	15
Total	**42,993**	**41,558**

"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)

	Total 12/31/2016	Total 12/31/2015
A. Beginning balance	**883**	**717**
B. Increases		
B.1 Provision for the year	417	322
B.2 Other increases	49	
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

€6,528 thousand

12.1 Provisions for risks and charges: breakdown

(in € thousands)

Items/Amounts	Total 12/31/2016	Total 12/31/2015
1. Pension funds	6,156	4,671
2. Other provisions		
2.1 Legal disputes		
2.2 Personnel expenses		
2.3 Other	371	365
Total	**6,528**	**5,036**

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

(in € thousands)

	Pension funds	Other provisions	Total
A. Beginning balance	**4,671**	**365**	**5,036**
B. Increases			
B.1 Provision for the year	2,041	7	2,047
B.2 Change due to passing of time			
B.3 Variation due to change in the discount rate			
B.4 Other changes			
C. Decreases			
C.1 Use during the year	(556)	0	(556)
C.2 Variation due to change in the discount rate			
C.3 Other changes			
D. Ending balance	**6,156**	**371**	**6,528**

The accrual for the year refers to the following:
- for €1,099 thousand, to the non-compete agreements with the managers of the Bank;
- for €941 thousand, to the deferral of a portion of the annual bonuses for the first and second level staff and other management staff.

12.3 Defined benefit pension funds

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 Banca Farmafactoring. The commitment is for a three-year period and starts from the date that the employment relationship is ended.
As consideration for this commitment, the Bank agrees to pay a specific amount to the employee in semiannual installments.

The features of the new bonus system include medium-term restrictions, according to which 30% of the annual bonus will be paid, starting from 2013, after three years, provided the Bank 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.
The Bank'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 the Bank'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 Officer	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 14 – Equity – Items 130, 150, 160,170, 180, 190 and 200
€323,432 thousand

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

The authorization for the amendments to the bylaws, contained in the Bank's "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 the Bank 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 the Bank, at December 31, 2016, thus consists of 1,701,074 shares, described as follows.

14.2 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		

14.4 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	**117,641**				
- Legal reserve	26,180	*B*			
- Extraordinary reserve	89	*A,B,C*	89		
- Retained earnings	91,372	*A,B,C*	91,372		
Revaluation reserves	**4,495**				
- Available-for-sale securities	471		471		
- Other	4,024		4,024		
Total share capital and reserves	**253,118**		**95,956**		

(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	**26,180**	**100,560**	**89**	**126,829**
B. Increases				
B.1 Appropriation of profit				0
B.2 Other changes				0
C. Decreases				
C.1 Uses				
- absorption of losses				0
- distribution		(9,106)		(9,106)
- transfer to share capital		(83)		(83)
C.2 Other changes				0
D. Ending balance	**26,180**	**91,372**	**89**	**117,641**

Retained earnings

The decrease of €9,106 thousand is due to the appropriation of a portion of the retained earnings by Banca Farmafactoring for dividends, in accordance with the resolution approved by the Ordinary Shareholders' Meeting on March 31, 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 Banca Farmafactoring 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	6,816	117,461
a) Banks		
i) for certain use		
ii) for uncertain use		
b) Customers	6,816	117,461
i) for certain use		
ii) for uncertain use	*6,816*	*117,461*
4) Underlying commitments for credit derivatives: sale of protection		
5) Assets used to guarantee obligations of third parties		
6) Other commitments		
Total	**6,838**	**117,461**

Commitments for uncertain use, totaling €6,816 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	469,548	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.

3. 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 Bank, classified in the AFS and HTM portfolios.

Part C – 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

€158,608 thousand

(in € thousands)

Items/Types	Debt securities	Loans	Other transactions	Total 2016	Total 2015
1. Financial assets held for trading					
2. Available-for-sale financial assets	491			**491**	**1,322**
3. Held-to-maturity financial assets	3,503			**3,503**	**4,526**
4. Due from banks		25		**25**	**127**
5. Due from customers		154,589		**154,589**	**140,943**
6. Financial assets designated at fair value					
7. Hedging derivatives					
8. Other assets			0	**0**	**2**
Total	**3,994**	**154,614**	**0**	**158,608**	**146,920**

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 Banca Farmafactoring 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 Bank with the banking system.

Interest income on "Due from customers" for loans amounts to €154,589 thousand and mostly consists of maturity commissions charged to assignors for the purchase of non-recourse receivables and late-payment interest for the year.

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, the Bank 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.

1.4 Interest expense and similar expenses: breakdown
€24,793 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	5,004		-	**5,004**	**7,574**
3. Due to customers	6,110		2,206	**8,317**	**12,049**
4. Debt securities issued		10,527		**10,527**	**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	**11,128**	**10,527**	**3,138**	**24,793**	**29,098**

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 expenses referring to "Due to customers – Other transactions" include the expenses on securitization transactions.

Interest expense on "Debt securities issued" refers to the two Banca Farmafactoring bond issues for €300 million and for €150 million.

Interest expenses recorded during the year decreased by €4.3 million due to a reduction 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 Bank'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
€7,994 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	7,994	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		
Total	**7,994**	**8,321**

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

2.3 Fee and commission expenses: breakdown
€3,112 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 (to specify)	**3,112**	**356**
- charges on current accounts	18	96
- commissions on current account funds availability	1	22
- other banking charges	94	47
- other	2,999	190
Total	**3,112**	**356**

The increase in expenses from fees and commissions is 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 Banca Farmafactoring, as well as from the counterparties of some loan agreements entered into by the Bank, 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
€8,022 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				
D. Equity investments	8,022		0	
Total	**8,022**	**0**	**0**	**0**

The shareholders' meeting of the subsidiary Farmafactoring España, held on June 27, 2016, approved the motion by the Board of Directors to pay dividends of €8 million to the Parent. This had no effect on the capital ratios of the Banking Group.

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
€489 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					
1.1 Debt securities					
1.2 Equity securities					
1.3 Units in investment funds					
1.4 Loans					
1.5 Other					
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Liabilities					
2.3 Other					
3. Financial assets and liabilities: exchange differences					**385**
4. Derivative financial instruments		**105**			**105**
4.1 Financial derivatives:		105			105
- on debt securities and interest rates					
- on equity instruments and share indexes					
- on currency and gold					
- other		105			105
4.2 Credit derivatives					
Total	0	105	0	0	489

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 adjustments in hedging accounting – Item 90

5.1 Fair value adjustments in hedge accounting: breakdown
€1 thousand

(in € thousands)

Income components/Amounts	Total 2016	Total 2015
A. Income from:		
A.1 Fair value hedge derivatives	2	
A.2 Hedged financial assets (fair value)	125	
A.3 Hedged financial liabilities (fair value)		
A.4 Cash flow hedging derivatives	11	
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	137	
B.2 Hedged financial assets (fair value)	2	
B.3 Hedged financial liabilities (fair value)		
B.4 Cash flow hedging derivatives		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, the Bank 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						
3.1 Debt securities	987	(281)	706	872	(0)	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**	**0**	**872**
Financial liabilities						
1. Due to banks						
2. Due to customers						
3. Debt securities issued						
Total liabilities	**0**	**0**	**0**	**0**	**0**	**0**

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

€641 thousand

8.1 Net losses/recoveries on impairment: breakdown

(in € thousands)

Transactions/ income components	Impairment losses			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)**	**(1,054)**	**(260)**		**109**		**834**	**(577)**	**(1,126)**
Impaired receivables purchased									
- Loans									
- Debt securities									
Other receivables	(206)	(1,054)	(260)		109		834	(577)	(1,126)
- Loans	(206)	(1,054)	(260)		109		834	(577)	(1,126)
- Debt securities									
C. Total	**(206)**	**(1,054)**	**(260)**		**109**		**834**	**(577)**	**(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 Banca Farmafactoring'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 9 – Administrative costs – Item 150
€54,493 thousand

9.1 Personnel costs: breakdown
€20,402 thousand

(in € thousands)

Type of expense/Amounts	Total 2016	Total 2015
1) Employees		
a) wages and salaries	12,950	10,898
b) social security contributions	3,397	3,031
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		
- defined contribution	162	157
- defined benefit		
h) costs of share-based payment agreement		
i) other employee benefits	1,276	1,074
2) Other employees in service	406	304
3) Directors and statutory auditors	1,794	1,726
4) Early retirement costs		
5) Recovery of expenses for employees on secondment to other companies		
6) Reimbursement of expenses for employees on secondment with the company		
Total	**20,402**	**17,513**

9.2 Average number of employees by category

Employees

(number)

Category	Average number 2016	Average number 2015
Executives	13	8
Supervisors	60	41
Rest of staff	114	76
Total	**187**	**125**

Other personnel
Internships: 3

9.4 Other benefits to employees

The amount of €1,276 thousand mainly refers to expenses incurred for training, insurance on behalf of staff, meal tickets and donations to employees.

9.5 Other administrative expenses: breakdown

€34,092 thousand

(in € thousands)

Details	Total 2016	Total 2015
Legal fees	1,854	2,799
Data processing costs	2,202	2,061
External credit management services	1,116	1,112
Supervisory Body fees	42	51
Legal fees for receivables under management	461	815
Notary fees	692	573
Notary fees to be recovered	277	188
Entertainment expenses and donations	789	840
Maintenance expenses	1,166	801
Non-deductible VAT	4,025	2,994
Other taxes	1,313	868
Consulting fees	10,340	5,977
Head office operating expenses	1,166	1,239
Resolution Fund and FITD	3,823	1,603
Other expenses	4,827	4,010
Total	**34,092**	**25,931**

The increase is mainly due to the following:
• 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 Banca Farmafactoring'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 the ordinary contribution of €1.1 million compared to the prior year, and the extraordinary contribution of €2.2 million, 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 €461 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, mainly include data outsourcing services, which are listed below.

(in € thousands)

Details	Total 2016
Audit fees (external firm)	15
Data processing fees (external firms)	2,291
Collection fees (external firms)	995

Section 10 – Net provisions for risks and charges – Item 160

€2,047 thousand

10.1 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	2,041	877
Other provisions	7	2
Total	**2,047**	**878**

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

Section 11 – Net writeoffs /writebacks on property, plant and equipment – Item 170

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

€1,097 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	1,097			1,097
- used in the business	1,097			1,097
- held for investment				
A.2 Purchased under finance leases				
- used in the business				
- held for investment				
Total	**1,097**			**1,097**

Section 12 – Net writeoffs/writebacks on intangible assets – Item 180

12.1 Net writeoffs on intangible assets: breakdown

€1,318 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	1,318			1,318
- generated internally				
- other	1,318			1,318
A.2 Purchased under finance leases				
Total	**1,318**			**1,318**

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Section 13 – Other operating income (expenses) – Item 190

€5,845 thousand

13.1 Other operating expenses: breakdown

(in € thousands)

Details	Total 2016	Total 2015
1. Operating expenses		
- Prior period expenses	(420)	(203)
- Rounding off and allowance expenses	(88)	(65)
- Registration tax expenses	(750)	(1,554)
Total	**(1,258)**	**(1,822)**

13.2 Other operating income: breakdown

(in € thousands)

Details	Total 2016	Total 2015
1. Operating income		
- Recovery of legal fees for purchases of non-recourse receivables	2,910	2,810
- Recovery of operational legal fees	461	746
- Receivables realized at other than face value	2	0
- Prior year items	2,522	1,106
- Recovery of assignor notary expenses	214	188
- Royalties from Farmafactoring España S.A.	395	441
- Other income	601	1,124
Total	**7,103**	**6,416**

Section 18 – Income taxes on profit from continuing operations – Item 260

€23,847 thousand

18.1 Income taxes on profit from continuing operations: breakdown

(in € thousands)

Income components/Amounts	Total 2016	Total 2015
1. Current taxes	22,217	19,503
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	1,998	4,912
6. Income taxes for the year	**23,847**	**24,053**

1.2 Reconciliation of theoretical tax and effective tax expense

(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)	
Temporary differences taxable in future years	(7,986)	
Temporary differences deductible in future years	3,546	
Reversal of temporary differences from subsequent	(1,591)	(44)
future years	**69,924**	**50,938**
Taxable profit		
Current taxes for the year: 27.5% IRES – 5.57% IRAP	**19,229**	**2,837**

Part D – Comprehensive Income

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

(in euros)

	Items	Gross amount	Income tax	Net amount
10.	**Profit for the year**			**70,313,719**
	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			
	Other comprehensive income that will be reclassified subsequently to the income statement:			
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			
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**	**467,842**	**(156,556)**	**311,286**
140.	**Comprehensive income (Item 10+130)**	**467,842**	**(156,556)**	**70,625,005**

Part E – Risks and related Risk Management Policies

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

Foreword

Banca Farmafactoring 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 Bank.
With this in mind, the Bank 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 Bank 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 the Bank define the risk governance and management model, taking into account the specific types of business and the related risk profiles characterizing the Bank, with the aim of creating an integrated and consistent risk management policy. Within this framework, the Bank'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.

At the Bank 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 Bank (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 – CREDIT RISK

Qualitative information

1. General remarks

Factoring activities, disciplined by the Italian Civil Code (Book IV – Title I, 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 Bank's capital in relation to the risks connected with lending.
With this in mind, the Bank 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 Bank 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.

Banca Farmafactoring 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 Bank principally represent exposures with counterparties of the Public Administration or healthcare entities.

The Bank 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.
Based on the method described above, the capital requirement covering credit risk at December 31, 2016 is €89,010 thousand.

The Bank'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 company 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 Bank'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.
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 the eligible capital.

In view of the fact that the Bank 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 Bank 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 Bank 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 company, 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), the Bank 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 "probability of default" (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.

Non-performing receivables

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

The Bank's *Non-Performing Receivables*, net of individual impairment losses, amount to €7,194 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 €45,429 thousand;
- Unlikely to pay, none;
- Non-performing exposures, for a net value of €7,194 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 €45,429 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.

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, the Bank has no exposures classified as unlikely to pay.

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 Bank, net of writedowns for estimated impairment losses, amount to €7.2 million. 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. The Bank'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 exposures 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					136,685	136,685
4. Due from customers	7,194		45,429	393,244	1,751,838	2,197,704
5. Financial assets designated at fair value						
6. Financial assets held for sale						
Total 12/31/2016	**7,194**		45,429	393,244	3,902,928	**4,348,795**
Total 12/31/2015	**2,507**		43,234	375,052	2,829,963	**3,250,756**

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 €393,244 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				136,685		136,685	136,685
4. Due from customers	55,096	2,474	52,622	2,148,553	3,471	2,145,082	2,197,704
5. Financial assets designated at fair value							
6. Financial assets held for sale							
Total 12/31/2016	**55,096**	**2,474**	**52,622**	**4,299,644**	**3,471**	**4,296,172**	**4,348,795**
Total 12/31/2015	**47,536**	**1,796**	**45,741**	**3,208,765**	**3,750**	**3,205,015**	**3,250,756**

(in € thousands)

Portfolio/Quality	Subprime assets		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading			111
2. Derivatives			529
Total 12/31/2016	**0**	**0**	**640**
Total 12/31/2015			

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

(in € thousands)

Exposure types/Amounts	Gross exposures					Specific impairm. losses	Portfolio impairm. 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								
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					136,685			136,685
forborne exposures								
TOTAL A					**136,685**	**-**	**-**	**136,685**
B. OFF-BALANCE SHEET EXPOSURE								
a) Impaired								
b) Not impaired					662			662
TOTAL B					**662**	**-**	**-**	**662**
TOTAL (A+B)					**137,347**	**-**	**-**	**137,347**

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

(in € thousands)

Exposure types/Amounts	Gross exposures					Specific impairm. losses	Portfolio impairm. 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	1		324	9,261		2,392		7,194
forborne exposures								
b) Unlikely to pay								
forborne exposures								
c) Past due impaired exposures	26,470	3,411	7,899	7,731		82		45,429
forborne exposures								
d) Past due not impaired exposures					394,021		777	393,244
forborne exposures								
e) Other not impaired exposures					3,768,937		2,694	3,766,243
forborne exposures								
TOTAL A	**26,470**	**3,411**	**8,223**	**16,992**	**4,162,959**	**2,474**	**3,471**	**4,212,110**
B. OFF-BALANCE SHEET EXPOSURE								
a) Impaired	716							716
b) Not impaired					6,187			6,187
TOTAL B	**716**	**0**	**0**	**0**	**6,187**	**0**	**0**	**6,903**
TOTAL (A+B)	**27,186**	**3,411**	**8,223**	**16,992**	**4,169,146**	**2,474**	**3,471**	**4,219,013**

A.1.7 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**		**43,310**
- of which: receivables sold but not derecognized	914		3,769
B. Increases	**6,372**		**35,755**
B.1 transfer from performing exposures	5,925		33,941
B.2 transfers from other categories of impaired exposures			120
B.3 other increases	447		1,694
C. Decreases	**1,012**		**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	**9,585**		**45,511**
- of which: receivables sold but not derecognized	4,726		16,302

A.1.8 On-balance sheet credit exposures with impaired 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	**753**		**0**		**66**	
B.1 impairment losses	198					
B.2 losses on sale						
B.3 transfers from other categories of impaired exposures						
B.4 other increases	555				66	
C. Decreases	**80**		**0**		**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		0		10	
D. Ending total impairments	**2,392**				**82**	
- of which: receivables sold but not derecognized	169				30	

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

A.2.1 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		3,933,939	35,199				379,656	**4,348,795**
B. Derivatives								
B.1 Financial derivatives	113		527					
B.2 Credit derivatives								**640**
C. Guarantees provided		108						**108**
D. Commitments to disburse funds		6,816						**6,816**
E. Other								
Total	**113**	**3,940,864**	**35,727**	**0**	**0**	**0**	**379,656**	**4,356,359**

This table includes, under "on-balance sheet exposures", the following asset items from the 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 €136,685 thousand, corresponding to the balances in the current accounts of the Bank at the end of the year;
- item 70 - Due from customers - amounting to €2,197,704 thousand, equal to the sum of the outstanding exposures at December 31, 2016.

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 Rating's 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 - Guaranteed credit exposures with customers

(in € thousands)

	Net exposure value	Collateral (1): Mortgaged propety	Collateral (1): Property - under finance leases	Collateral (1): Securities	Collateral (1): Other collateral	Unsecured guarantees (2) - Credit derivatives: CLN	Unsecured guarantees (2) - Credit derivatives - Other derivatives: Governments and central banks	Unsecured guarantees (2) - Credit derivatives - Other derivatives: Other public entities	Unsecured guarantees (2) - Credit derivatives - Other derivatives: Banks	Unsecured guarantees (2) - Credit derivatives - Other derivatives: Other subjects	Unsecured guarantees (2) - Endorsement credits: Governments and central banks	Unsecured guarantees (2) - Endorsement credits: Other public entities	Unsecured guarantees (2) - Endorsement credits: Banks	Unsecured guarantees (2) - Endorsement credits: Other subjects	**Total (1)+(2)**
1. Guaranteed on-balance sheet credit exposures:															
1.1 totally guaranteed	386												33	353	**386**
- impaired	*33*												*33*		***33***
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 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 impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses
A. On-balance sheet exposures						
A.1 Non-performing				6,131	931	
- forborne exposures						
A.2 Unlikely to pay						
- forborne exposures						
A.3 Past due impaired exposures	4,662	9		34,116	63	
- forborne exposures						
A.4 Not impaired exposures	2,423,105		755	1,325,303		2,662
- forborne exposures						
Total A	**2,427,767**	**9**	**755**	**1,365,550**	**994**	**2,662**
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			4,325		
Total B	**1,780**	**0**	**0**	**5,001**	**0**	**0**
Total (A+B) 12/31/2016	**2,429,547**	**9**	**755**	**1,370,552**	**994**	**2,662**
Total (A+B) 12/31/2015	**1,541,235**	**0**	**499**	**1,421,623**	**468**	**3,225**

(in € thousands)

Exposures/Counterparties	Financial companies			Insurance companies		
	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses
A. On-balance sheet exposures						
A.1 Non-performing						
- forborne exposures						
A.2 Unlikely to pay						
- forborne exposures						
A.3 Past due impaired exposures						
- forborne exposures						
A.4 Not impaired exposures	367,508					
- forborne exposures						
Total A	**367,508**	**0**	**0**	**0**	**0**	**0**
B. Off-balance sheet exposures						
B.1 Non-performing						
B.2 Unlikely to pay						
B.3 Other impaired exposures						
B.4 Not impaired exposures	87					
Total B	**87**	**0**	**0**	**0**	**0**	**0**
Total (A+B) 12/31/2016	**367,594**	**0**	**0**	**0**	**0**	**0**
Total (A+B) 12/31/2015	**202,377**					

(in € thousands)

Exposures/Counterparties	Non-financial companies			Other subjects		
	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses
A. On-balance sheet exposures						
A.1 Non-performing	33	853		1,030	607	
- forborne exposures						
A.2 Unlikely to pay						
- forborne exposures						
A.3 Past due impaired exposures	6,497	11		154	0	
- forborne exposures						
A.4 Not impaired exposures	29,425		32	14,147		23
- forborne exposures						
Total A	**35,954**	**864**	**32**	**15,331**	**608**	**23**
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						
Total B	**34**	**0**	**0**	**0**	**0**	**0**
Total (A+B) 12/31/2016	**35,989**	**864**	**32**	**15,331**	**608**	**23**
Total (A+B) 12/31/2015	**131,437**	**909**	**8**	**16,347**	**419**	**18**

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

(in € thousands)

Exposures/ Geographic region	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total impair. losses	Net exposure	Total impair. losses	Net exposure	Total impair. losses	Net exposure	Total impair. losses	Net exposure	Total impair. losses
A. On-balance sheet exposures										
A.1 Non-performing	7,194	2,392								
A.2 Unlikely to pay										
A.3 Past due impaired exposures	45,429	82								
A.4 Not impaired exposures	3,808,992	3,409	350,495	62						
Total A	**3,861,614**	**5,883**	**350,495**	**62**	**0**	**0**	**0**	**0**	**0**	**0**
B. Off-balance sheet exposures										
B.1 Non-performing										
B.2 Unlikely to pay										
B.3 Other impaired exposures	716									
B.4 Not impaired exposures	6,100		87							
Total B	**6,816**	**0**	**87**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total (A+B) 12/31/2016	**3,868,431**	**5,883**	**350,582**	**62**	**0**	**0**	**0**	**0**	**0**	**0**
Total (A+B) 12/31/2015	**3,110,377**	**5,496**	**202,642**	**50**						

(in € thousands)

Exposures/ Geographical areas	Italy Northwest		Italy Northeast		Italy Central		Italy – South and Islands	
	Net exposure	Total impairm. losses	Net exposure	Total impairm. losses	Net exposure	Total impairm. losses	Net exposure	Total impairm. 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 exposures	4,275	8	1,772	3	5,333	10	34,049	61
A.4 Not impaired exposures	205,990	358	92,641	171	2,773,559	1,232	736,802	1,648
Total A	**211,171**	**721**	**94,588**	**253**	**2,779,214**	**2,401**	**776,840**	**2,509**
B. Off-balance sheet exposures								
B.1 Non-performing								
B.2 Unlikely to pay								
B.3 Other impaired exposures	573				38		105	
B.4 Not impaired exposures	659		1,427		2,001		2,013	
Total B	**1,233**		**1,427**		**2,038**		**2,118**	
Total (A+B) 12/31/2016	**212,403**	**721**	**96,015**	**253**	**2,781,252**	**2,401**	**778,958**	**2,509**
Total (A+B) 12/31/2015	**174,575**	**622**	**87,416**	**198**	**1,989,206**	**2,808**	**859,180**	**1,867**

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

(in € thousands)

Exposures/ Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total impairm. losses	Net exposure	Total impairm. losses	Net exposure	Total impairm. losses	Net exposure	Total impairm. losses	Net exposure	Total impairm. losses
A. On-balance sheet exposures										
A.1 Non-performing										
A.2 Unlikely to pay										
A.3 Past due impaired exposures										
A.4 Not impaired exposures	129,398		7,287							
Total A	**129,398**	**0**	**7,287**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
B. Off-balance sheet exposures										
B.1 Non-performing										
B.2 Unlikely to pay										
B.3 Other impaired exposures										
B.4 Not impaired exposures	22		640							
Total B	**22**	**0**	**640**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total (A+B) 12/31/2016	**129,420**	**0**	**7,927**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total (A+B) 12/31/2015	**55,393**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

(in € thousands)

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

B.4 Large exposures

At December 31, 2016, there were 17 "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, corresponds to Own Funds.
The nominal unweighted amount of these positions was €5,427,769 thousand, while the weighted positions amounted to €240,485 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 the Bank.

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

Banca Farmafactoring, 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 Banca Farmafactoring.

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 the Bank,

(ii) terminates 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 Banca Farmafactoring, in its capacity as underwriter of the subordinated loan.
Because of this condition, together with the Bank'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 Banca Farmafactoring. Consequently, the securitization risk is included in the credit risk.

Quantitative information

Types of financial instruments held
Banca Farmafactoring does not hold any financial instruments connected with the abovementioned transaction.

Sub-servicer activity
Banca Farmafactoring, in qualità di mandatario all'incasso, si occupa, per conto del *Servicer* Zenith Service SpA, dell'attività di recupero e incasso dei crediti.

Banca Farmafactoring, 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 during the revolving phase of the transaction, the face amount of the outstanding receivables totaled about €140 million at December 31, 2016.

C.1 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 exposures						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 Special purpose vehicle for securitization

(in € thousands)

Securitization name / SPV company	Head Office	Consolidation	Assets			Liabilities		
			Receivab.	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

Qualitative 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 the Bank 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 Bank's securities portfolio.

Quantitative information

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

(in € thousands)

	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**	
Type/Portfolio	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	**12.31.16**	**12.31.15**
A. On balance sheet assets							**185,165**			**1,623,209**						**469,548**			**2,277,923**	**1,568,632**
1. Debt securities							185,165			1,623,209									**1,808,374**	**917,117**
2. Equity securities																				
3. Units in investments funds																				
4. Loans																469,548			**469,548**	**651,515**
B. Derivative instruments																				
Total 12/31/2016							**185,165**			**1,623,209**						**469,548**			**2,277,923**	
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. 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							
a) related to assets fully recognized							
b) related to assets partially recognized							
Total 12/31/2016			**185,069**	**1,599,883**		**337,821**	**2,122,773**
Total 12/31/2015			**94,694**	**825,777**		**412,660**	**1,333,131**

Section 2 – Market risks

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 Bank'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.

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	unspecified 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		**12,179**						
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security		12,179						
- Options								
+ long positions								
+ short positions								
- Other derivatives		12,179						
+ long positions		*12,179*						
+ 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	unspecified 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		**12,179**						
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security		12,179						
- Options								
+ long positions								
+ short positions								
- Other derivatives		12,179						
+ long positions								
+ short positions		*12,179*						

2.2 Interest rate risk and price risk – banking portfolio

Qualitative information

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

For assessing interest rate risk, the Bank 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 re-

ceivables, 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 Bank regularly monitors interest rate risk, as well its management, through a specific reporting.

The assumption of interest rate risk in connection with Banca Farmafactoring'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 Banca Farmafactoring.
The interest rate risk position is reported on a quarterly basis to the Bank'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

The company 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.

C. Cash flow hedging activities

Contracts outstanding (in € units, unless otherwise indicated):

	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.
The Bank 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, the Bank 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	unspecified maturity
1. Balance sheet assets	**844,592**	**473,478**	**1,078,888**	**658,944**	**1,167,626**	**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	131,455	5,174						
1.3 Loans to customers	713,137	197,766	193,878	300,100	667,613	20,743	20,388	
- current account	*0*							
- other loans	*713,137*	*197,766*	*193,878*	*300,100*	*667,613*	*20,743*	*20,388*	
- with early repayment option								
- other	*713,137*	*197,766*	*193,878*	*300,100*	*667,613*	*20,743*	*20,388*	
2. Balance sheet liabilities	**342,635**	**1,893,454**	**709,604**	**886,501**	**421,896**			
2.1 Due to customers	197,529	1,801,454	337,827	511,268	159,604			
- current account	*38,163*	*221,523*	*162,995*	*241,035*	*159,604*			
- other liabilities	*159,366*	*1,579,931*	*174,832*	*270,233*				
- with early repayment option								
- other	*159,366*	*1,579,931*	*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		149,061			
- with early repayment option			*304,277*					
- other					*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	unspecified maturity
1. Balance sheet assets	**7,871**	**76,263**						
1.1 Debt securities								
- with early repayment option								
- other								
1.2 Loans to banks	55							
1.3 Loans to customers	7,816	76,263						
- current account								
- other loans	*7,816*	*76,263*						
- with early repayment option								
- other	*7,816*	*76,263*						
2. Balance sheet liabilities		**80,508**						
2.1 Due to customers								
- current account								
- other liabilities								
- with early repayment option								
- other								
2.2 Due to banks		80,508						
- current account								
- other liabilities		*80,508*						
2.3 Debt securities								
- with early repayment option								
- other								
2.4 Other liabilities								
- 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*			*80,486*			
4. Off-balance sheet transactions								
+ long positions								
+ short positions								

2.3 Exchange rate risk

Qualitative information

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

Exchange rate risk is represented by the Bank'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 Bank's asset portfolio at December 31, 2016 is denominated as follows:
- Euro;
- Polish zloty;
- Czech koruna.

The Bank thus manages and monitors the risk of fluctuations in exchange rates. The Bank 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 Bank 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 Bank 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.

Quantitative information

The Bank'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)

Items	Currency					
	U.S. dollar	British pound	Japanese yen	Canadian dollar	Swiss franc	Other currency
A. Financial assets						**171,181**
A.1 Debt securities						
A.2 Equity securities						
A.3 Loans to banks						55
A.4 Loans to customers						84,079
A.5 Other financial assets						87,047
B. Other assets						
C. Financial liabilities						**80,508**
C.1 Due to banks						80,508
C.2 Due to customers						
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities						
E. Financial derivatives						**87,411**
- Options						
+ long positions						
+ short positions						
- Other derivatives						
+ long positions						
+ short positions						*87,411*
Total assets						**171,181**
Total liabilities						**167,919**
Difference (+/-)						**3,262**

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				
a) Options				
b) Swaps				
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	**12,179**			
a) Options				
b) Swaps	12,179			
c) Forwards				
d) Futures				
e) Other				
4. Commodities				
5. Other underlyings				
Total	**12,179**			

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	111			
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	**640**			

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			

SECTION 3 – LIQUIDITY RISK

Qualitative information

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

Liquidity risk is represented by the possibility that the Bank 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 Bank 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 Bank, as required by the provisions of the prudential supervision regulation published by the Bank of Italy, adopted a Risk Management Regulation and aTreasury 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 Bank and the potential sources of liquidity risk;
• the operating procedures through which the Bank 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 Bank'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 Bank 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 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 Bank's solvency conditions.

Quantitative information

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

Currency: EURO *(in € thousands)*

Items/Maturity	On demand	1 to 7 days	7 to 15 days	15 days to1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecif. maturity
Balance sheet assets	**837,895**	**9,955**	**56,043**	**118,413**	**290,581**	**700,418**	**662,988**	**1,541,148**	**47,414**	
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	837,895	9,955	5,918	118,413	67,844	194,367	299,548	668,901	47,414	
- due from banks	*131,455*	*5,174*								
- customers	*706,440*	*4,781*	*5,918*	*118,413*	*67,844*	*194,367*	*299,548*	*668,901*	*47,414*	
Balance sheet liabilities	**194,013**	**353,675**	**325,232**	**702,496**	**261,001**	**823,287**	**764,462**	**559,693**		
B.1 Deposits and current accounts due to	34,647	25,073	19,638	38,451	211,084	231,795	494,228	292,835		
- banks	*107*	*5,000*	*0*	*0*	*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						303,339		150,000		
B.3 Other liabilities	159,366	328,602	305,594	664,045	49,917	288,153	270,233	116,858		
Off-balance sheet transactions			**7,000**	**18,388**	**62,024**					
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										
- long positions										
- 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										

Currency: OTHER *(in € thousands)*

Items/Maturity	On demand	1 to 7 days	7 to 15 days	15 days to1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecif. maturity
Balance sheet assets	**55**									
A.1 Government securities										
A.2 Other debt securities										
A.3 Units in investments funds										
A.4 Loans	55									
- due from banks	*55*									
- customers										
Balance sheet liabilities								**80,508**		
B.1 Deposits and current accounts due to								80,508		
- banks								*80,508*		
- customers										
B.2 Debt securities										
B.3 Other liabilities										
Off-balance sheet transactions			**7,000**	**18,388**	**62,047**	**14**	**383**			
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					23	14	383			
- long positions					*23*	*14*	*253*			
- short positions							*130*			
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										

SECTION 4 – OPERATIONAL RISKS

Qualitative information

1. General remarks, 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 Bank, 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 Bank 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 by the Bank 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 Bank:

- Money laundering risk, regarding the risk that financial and commercial counterparties and Bank 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 Bank'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 Bank'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 Bank 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 Bank 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 above mentioned risks, the Bank 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 €25,350 thousand at December 31, 2016.

Part F – Equity

Section 1 – Equity of the Bank

A. Qualitative information

The equity of the Bank is composed of the aggregate of share Capital, Reserves, Valuation Reserves and Profit for the year.
For regulatory purposes, the relevant aggregate equity is calculated on the basis of the existing instructions of the Bank of Italy and constitutes the basis of reference of the prudential supervision regulations.

B. Quantitative information

B.1 Equity of the Bank: breakdown

(in € thousands)

Items/Amounts	12/31/2016	12/31/2015
1. Share capital	130,983	130,900
2. Share premium		
3. Reserves		
- profit		
a) legal	26,180	26,180
b) statutory		
c) treasury shares		
d) other		
- other	91,461	100,649
4. Equity instruments		
5. (Treasury shares)		
6. Revaluation reserves:		
- Available-for-sale financial assets	471	481
- Property, plant and equipment		
- Intangible assets		
- Hedges of net investments in foreign subsidiaries		
- Cash flow hedges	346	0
- Foreign exchange differences		
- Non-current assets held for sale		
- Actuarial gains/losses relating to defined benefits plans	(144)	(120)
- Share of revaluation reserves from investments accounted for using the equity method		
- Special revaluation laws	3,823	3,823
7. Profit for the year	70,314	59,659
Total	**323,432**	**321,572**

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

(in € thousands)

Assets/Amounts	Total 12/31/2016		Total 12/31/2015	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	471		481	
2. Equity securities				
3. Units in investment funds				
4. Loans				
Total	**471**		**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 Bank's 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 regulatory ratios

2.1 Own funds

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 Bank.
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 Bank 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 Bank'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, Banca Farmafactoring'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 Bank will not include in Own Funds unrealized profit or loss relative to the above exposures.

Own Funds of the Bank do not include capital items qualifying as Additional Tier 1 Capital (AT1) and Tier 2 Capital (T2).

B. Quantitative information

(in € thousands)

	Total 12/31/2016	Total 12/31/2015
A. Common Equity Tier 1 - CET1 before the application of prudential filters	**250,485**	**252,326**
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)	**250,485**	**252,326**
D. Elements to be deducted from CET1	**(25,460)**	**(2,747)**
E. Transitory regime - Impact on CET1 (+/-)		
F. Total Common Equity Tier 1 - CET1 capital (C - D +/- E)	**225,024**	**249,579**
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 (+/-)		
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 (+/-)		
P. Total Tier 2 - T2 capital (M - N +/- O)		
Q. Total Own Funds (F + L + P)	**225,024**	**249,579**

Own Funds of the Bank amount to €225.0 million compared to €249.6 million at December 31, 2015. The difference is due mainly to the acquisition of the Magellan Group, which led to the recognition of goodwill, a deduction from Own funds, equal to €22.1 million.

2.2 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%).

Banca Farmafactoring'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, the Tier 1 Capital Ratio and the Total Capital Ratio are 15.7%.

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;
- 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 Banca Farmafactoring is DBRS, with the "Unsolicited" type of rating.
For the calculation of credit risk, the Bank 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, denomi-

nated and financed in the local currency, and for receivables from the Public Administration of countries in credit quality lass 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 Bank 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.

$$\text{Capital requirement} = 8\%\ \text{RWA}$$

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 Banca Farmafactoring, 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 Bank 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 Bank 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 Banking 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

(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	4,542,171	3,324,892	1,112,622	905,840
2. Internal rating based approach				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			89,010	72,467
B.2 Credit valuation adjustment risk			36	
B.3 Settlement risk				
B.4 Market risk				
1. Standardized approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach			25,350	23,428
2. Standardized approach				
3. Advanced approach				
B.6 Other calculation elements				
B.7 Total capital requirements			114,397	95,895
C. REGULATORY CAPITAL REQUIREMENTS				
C.1 Risk-weighted assets			1,429,957	1,198,695
C.2 Common Equity Tier 1 Capital/Risk-weighted assets (CET1 capital ratio) (%)			15.7%	20.8%
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			15.7%	20.8%
C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)			15.7%	20.8%

The capital ratios show a decrease principally due to the acquisition of Magellan, affecting both Own Funds, with the deduction of goodwill, and increasing RWA as a result of the recognition of the investment in the assets of the Bank.

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 Banca Farmafactoring 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 Banking 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 the Group, 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 Banca Farmafactoring 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 Banca Farmafactoring, of 67,471 treasury shares held by Magellan for PLN 23 million, equal to €5.2 million, which increased the value of the investment.

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.

Banca Farmafactoring 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 Banca Farmafactoring 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, the Bank 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 Banca Farmafactoring 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.
During the year, Farmafactoring España purchased Italian healthcare receivables 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.
Banca Farmafactoring provides the following:
• 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 Bank 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 the Bank 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 the Bank'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, the Bank 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 the Bank's 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 the Bank'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 Extraordinary Shareholders' Meeting of the Bank 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

Items/Number of options and exercise price	Total 12/31/2016			Total 12/31/2015		
	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**	
B. Increases	**1,074**	**77**				
B.1 New issues	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**		**1,700,000**	**77**	
E. Options exercisable at the end of the year						

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 purposes 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.

BANCA FARMAFACTORING
BFF BANKING GROUP

03 BOARD OF STATUTORY AUDITORS' REPORT

BANCA FARMAFACTORING S.p.A.

BOARD OF STATUTORY AUDITORS' REPORT
TO THE SHAREHOLDERS' MEETING OF BANCA FARMAFACTORING S.p.A.
PURSUANT TO ART. 153 OF LEGISLATIVE DECREE 58/1998 AND
ART. 2429 OF THE ITALIAN CIVIL CODE

To the Shareholders' Meeting of Banca Farmafactoring S.p.A.

Dear Shareholders,

The Board of Statutory Auditors of Banca Farmafactoring S.p.A. has been asked to report to the Shareholders' Meeting, called to approve the financial statements for the year ended December 31, 2016, on the supervisory activities conducted during the course of the year pursuant to art. 153 of Legislative Decree 58/1998 and art. 2429 of the Italian Civil Code.
The draft financial statements for the year ended December 31, 2016, which are submitted for your approval, comprise the notes and the schedules thereto, as well as the Directors' Report on Operations.
The supervisory activities have been carried out by the Board of Statutory Auditors pursuant to the provisions of art. 2403 of the Italian Civil Code and Legislative Decree 58/1998 (Consolidated Law of Finance), and the relevant provisions emanated by the Regulatory Authorities, in accordance with the recommendations issued by CONSOB and the Code of Conduct of the Board of Statutory Auditors as drawn up by the National Boards of Dottori Commercialisti and Esperti Contabili.
The audit of the financial statements for the financial years 2012-2020 was mandated to the audit firm of PricewaterhouseCoopers S.p.A. ("PwC"), as proposed by the Board of Statutory Auditors, by the Ordinary Shareholders' Meeting held on May 3, 2012.

This Report describes the work carried out by us during the course of our institutional activities, and we confirm that during the year we have carried out our supervisory activities in accordance with the law.

Appointment and activities of the Board of Statutory Auditors

The Board of Statutory Auditors in office at the date of this Report was appointed by the Shareholders' Meeting held on November 4, 2015. Following the resignation of the statutory auditor Lorenzo Pozza, on February 16, 2016, the alternate statutory auditor Patrizia Paleologo Oriundi was confirmed as auditor by the Shareholders' Meeting held on March 31, 2016.

The Board of Statutory Auditors has monitored, as far as its responsibilities are concerned, the observance of the law and bylaws, the principles of proper administration, the adequacy of the organizational structure, the internal control system and the administrative-accounting structure and the reliability of the latter to correctly represent operating events.
The Board of Statutory Auditors, which identifies itself with the Internal Control and Audit Committee as envisaged by Legislative Decree 39 of January 27, 2010, has carried out during the year the verification activities which it must perform according to art. 19 of the Decree.

During the course of the year, the Board of Statutory Auditors has held, as far as its responsibilities are concerned, 16 meetings.
The Board of Statutory Auditors, with limited justified absences by some of its members, has also taken part in 21 meetings of the Board of Directors and 20 meetings of the Internal Control and Risk Committee.
The chairperson, in the name of the entire Board of Statutory auditors, has also participated in the meetings of the Related Party Transactions Committee and the Remuneration Committee.
In conducting the supervisory and control activities, the Board has also had meetings with senior management, with the internal control Functions (Compliance, Anti-Money Laundering, Risk Management and Internal Audit), with the Audit Firm, with the Supervisory Body appointed pursuant to Legislative Decree 231/2001 and with the persons in charge of the various Operating Units.

The participation in the meetings of the Board of Directors, the meetings with the Control Functions and those in charge of the various Operating Units, as well as the examination of the information flows prepared by the functions, enabled us to acquire, in the various sectors, information necessary and useful in reflecting on the general trend in operations, the future outlook, organization, system of internal control and risk management and the administrative-accounting system, in order to access their adequacy as compared to the company’s needs, in addition to the operating reliability.
The meetings with the internal control functions specifically made it possible to obtain adequate information on the system of internal control and risk management at the level of the Banking Group.
The contacts with the person in charge of the Planning, Administration and Control Department offered the possibility of checking the observance of the control policies and procedures relating to the administrative and control procedures, which can be confirmed as adequate.

With regard to the manner in which it has carried out its responsibilities, the Board of Statutory Auditors, informs and states that it:
- has acquired the elements of information necessary to conduct control activities, as far as its responsibilities are concerned, on the degree of adequacy of the organizational structure adopted by the Company, also as regards the liaison with subsidiaries, through direct inquiry, gathering of information from the persons in charge of the interested Functions, exchange of data and information with the Audit Firm;
- has monitored the observance of the requirements of the Bank of Italy;
- has overseen the application of the anti-money laundering laws;

- has overseen the functioning of the internal control and administrative-accounting systems in order to assess their adequacy in relation to operational needs and also the reliability of the latter to represent the operating events, through direct observance of company documents, obtaining information from the respective Functions and analyses of the results of the work carried out by the Audit Firm;
- has monitored the controls of the Parent Company over the subsidiaries.

The Board of Statutory Auditors has also taken note of the involvement of the Internal Audit Function and the Supervisory Body of the Bank, pursuant to Legislative Decree 231/2001, with regard to their respective competences, and states that the function of the Supervisory Body, pursuant to Legislative Decree 231/2001, has not been transferred to the Board of Statutory Auditors, but is carried out by a separate collective body.

Significant events and transactions during the year

The separate financial statements at December 31, 2016 of Banca Farmafactoring S.p.A. show a profit of €70,313,719, which is formed as described in detail by the Board of Directors in its report, to which reference can be made.
On our part, we would like to point out the most significant transactions, which are also presented in the Report on Operations, as follows:

i) On May 31, 2016, following authorization from the Bank of Italy, Banca Farmafactoring acquired control of the Magellan Group, a specialized operator and leader in the market for financial services offered to companies operating in the healthcare sector in Poland and Slovakia and the Czech Republic, listed on the Warsaw Stock Exchange, through the Polish vehicle company Mediona. On September 30, 2016, the delisting of the Magellan S.A. (parent company) shares was approved and executed by order of the Warsaw Stock Exchange on December 1, 2016. Mediona S.A., parent of Magellan S.A., was then merged with and into the latter company, effective December 16, 2016. The acquisition of Magellan has enabled the Farmafactoring Banking Group to operate in a leadership position on the Polish market of alternative financing in the hospital sector, with a considerable growth in the size of the Group.

ii) The acquisition of Magellan was partly achieved by a loan obtained on May 27, 2017 from the Unicredit Group for about PLN 355.1 million (about €80.3 million), with a bullet repayment due May 31, 2019.

iii) On June 21, 2016, bonds for €150 million were issued, due June 21, 2021, placed exclusively with institutional investors, and listed on the Irish Stock Exchange.

iv) In August 2016, moreover, the existing securitization transaction with the Deutsche Bank Group was renewed for €85 million.

v) In June 2016, deposit-taking was begun in Germany, under the freedom to provide services provision, by the Spanish branch of BFF, using the Weltsparen online platform. This activity, combined with the growth of deposits in Conto Facto and Cuenta Facto, enabled the Group to significantly increase deposit-taking from €418 million at December 31, 2015 to €817 million at December 31, 2016.

vi) The Bank, following authorization received from the Bank of Italy – relative to the motions to amend the bylaws approved by the Shareholders' Meeting held on May 18, 2016, with a simultaneous bonus increase in share capital of €134,750 – awarded 6 bonus shares to each employee. The award is not linked to performance targets.

The Report on Operations also illustrates the criteria underlying the recognition of late-payment interest, a subject of specific interest to the Board of Statutory Auditors and discussed with the auditors, which agreed with the treatment. However, it would be useful to emphasize how the treatment at one time adopted by the Bank and applied in the preparation of the financial statements for the year ended December 31 2016, is consistent with the indications provided by the Supervisory Authorities, in its joint document with the Bank of Italy/Consob/Ivass Document 7 of November 9, 2016.
Furthermore, in 2016, Banca Farmafactoring has contributed to the Deposit Guarantee Scheme (Fonda Interbancario Tutela dei Depositi) for €235,000, as well as the Resolution Fund instituted by European Regulation 806/2014, in effect from January 1, 2016, for €2,179 thousand.

The directors have also made reference, lastly, to the capital adequacy of the Group, computed by considering the inclusion of BFF Luxembourg S.a.r.l. *(*so-called CRR Group), and the motivations underlying its reduction compared to 2015. Specifically, capital adequacy, computed at the end of the year, expresses a Tier 1 and a Total Capital Ratio at 16.6%, compared to 24.1%, with Risk Weighted Assets that went from €1,069 million in 2015 to €1,416 million at the end of 2016, due to the acquisition of the Magellan Group.

The Board of Statutory Auditors, based on the information acquired and the controls carried out, has no observations or matters to report relative to the conformity with the law and the bylaws of the transactions executed by the Company.

Atypical and/or unusual transactions

The Report on Operations, the information received during the course of meetings with the Board of Directors and information obtained from the Chairman and Chief Executive Officer, from management, the control Functions and the auditors did not indicate the existence of atypical and/or unusual transactions, including intragroup or related party transactions.

Intragroup or related party transactions

The Board of Statutory Auditors monitored the compliance of the recently updated regulation approved by the Board of Directors with regard to transactions with related parties as well as the observance of the regulation itself. During the course of the year 2016, the board has not noted the existence of atypical or unusual transactions with related parties, intragroup, or with other parties, nor have there been indications in that sense from the Board of Directors or the independent auditors.
The transactions between the Bank and certain shareholder companies and between the Bank and its subsidiaries are based on ordinary operating activities and are in the interests of the Bank, as stated by the directors in the Report on Operations. Such transactions are carried out

on an arm's length basis and take into account the characteristics of the transactions that have been entered into. Information regarding related party transactions is disclosed in Part H of the Notes.
The Board of Statutory Auditors has taken note that the internal policies regarding controls over risk activities and conflicts of interest with affiliates, currently in place, are those approved by the Board of Directors on November 11, 2016. Such policies govern the organizational and control processes aimed at identifying and assessing the affiliates and ensure a correct measurement and management of the risks assumed.

Monitoring and control activities carried out by the Board of Statutory Auditors in relation to the duties attributed to it as the "Internal Control and Audit Committee"

The Board of Statutory Auditors, identified in the Consolidated Law of Audit as the Internal Control and Audit Committee, for purposes of expressing its autonomous assessments:
(i) has acquired information on the tests carried out by the firm charged with the audit on the proper keeping of the company's accounting records and on the proper recognition of operating events in the accounting entries;
(ii) has received from the audit firm, pursuant to art. 19, paragraph 3 of Legislative Decree 39/2010, the report describing the fundamental matters that arose during the audit and any significant weaknesses in the internal control system as regards the financial reporting process, in which there were no critical matters to report;
(iii) has received from the same audit firm, pursuant to art. 17, paragraph 9, letter a) of Legislative Decree 39/2010, confirmation of its independence as well as communication of the non-audit services rendered to the Bank by the audit firm or by entities in its same network, discussing the risks relative to their independence and also the measures adopted to limit such risks.

Specifically, the Board of Statutory Auditors has monitored:
- the financial reporting process;
- the effectiveness of the internal control system, internal auditing and risk management;
- the audit of the annual financial statements and the consolidated financial statements;
- the independence of the auditors, specifically with regard to the performance of non-audit services.

The Board of Statutory Auditors has examined the reports issued by the auditors, PricewaterhouseCoopers S.p.A., the activities of which integrate the overall framework of the control functions established by the law with reference to the financial reporting process.
These reports, issued on the date of February 20, 2017, pursuant to art. 14 of Legislative Decree 39/2010, indicate that the separate financial statements and consolidated financial statements of the Group have been prepared on the basis of the international financial reporting standards IASIFRS issued by the International Accounting Standards Board and endorsed by the European Union, in effect at December 31, 2016, as well as in conformity with the provisions issued in implementation of art. 9 of Legislative Decree 38/2005.
In the opinion of the auditors, the separate and consolidated financial statements at December 31, 2016 give a true and fair view of the financial position and of the results of operations and cash flows for the year then ended.

Moreover, in the opinion of the auditors, the Report on Operations is consistent with the financial statements.
The Board of Statutory Auditors has also examined the report issued by the auditors on February 20, 2017, pursuant to art. 19 of Legislative Decree 39/2010, the most significant matters of which are discussed here in this report, and with which we agree.
The auditors, with whom the Board of Statutory Auditors has periodically met, in accordance with art. 150, paragraph 3 of the Consolidated Law of Finance, for purposes of exchanging reciprocal information, had no critical acts or events or irregularities to report to the Board that required mention pursuant to art. 155, paragraph 2 of the Consolidated Law of Finance.

Monitoring activities on the independence of the auditors

The Board of Statutory Auditors has taken note of the Report on the independence of the auditors issued on February 20, 2017, required by art. 17 of Legislative Decree 39/2010, which does not report any situations that would compromise the independence or reasons for incompatibility, pursuant to articles 10 and 17 of the same Decree and the relative provisions of implementation.
Based also on the declaration by the auditors, the Board of Statutory Auditors has taken note that the PwC network, in 2016, was paid fees for the following services:

Type of Service	Subject	Fee
Audit (*)	PwC SpA	199,000
Attestation services (**)	PwC SpA	718,000
Audit services rendered by the network	PwC Network	112,362
Non-audit services rendered by the Italian network (***)	PwC Advisory SpA	461,000
Non-audit services rendered by the foreign network (***)	PwC Network	1,531,107
Total		3,021,469

(*) Including the full audit of the half-year financial report and the limited reviews of the quarterly reports for the first and third quarters of 2016.
(**) Including comfort letters on provisional tax accounting data regarding the information schedules for the non-recurring transactions.
(***) Including activities rendered to the Group also in conjunction with the acquisition of the Magellan Group.

The above table indicates that besides the engagements for the audit of the separate and consolidated financial statements, the full audit of the half-year financial report, the limited reviews of the quarterly reports and the verification of the proper recording of the accounting and the proper recognition of operating events in the accounting records – for the entire Group, including the foreign companies – non-auditing fees were also paid which, although significant in amount, should be viewed in relation to the complexity of the additional activities performed, and which refer to: i) for the Italian network: the issue of attestations for non-recurring transactions, including the comfort letters for the initial public offering, under evaluation by the Board of Directors of the company, the issue of bonds and the issue of attestations to the ECB; ii) for the foreign network: due diligence and support activities for the overall assessment of the Magellan Group.

Monitoring activities on the financial reporting process

The Bank, as the Parent Company, in keeping with existing laws and regulatory provisions, defines the guidelines for the preparation of the financial statements in the interests of the stability of the Group and for the purpose of ensuring a unitary direction in the entrepreneurial design and the overall operations of the same. The accounting policies of the Group set out the general principles and rules emanated by the Group in order to arrive at the application of uniform accounting standards and interpretations that must be applied by each Entity in the preparation of the accounting documents directed to the preparation of the consolidated financial statements of the Group (i.e. the Reporting Package). This is achieved through the criteria for the recognition, classification, measurement and derecognition of the various assets and liabilities, as well as the recognition of revenues and costs as set out in the International Financial Reporting Standards ("IAS/IFRS").
The principles and rules contained in the accounting policies of the Group also constitute a guideline for the preparation of the separate financial statements, when they are prepared in accordance with IAS/IFRS, and in the preparation of the financial statements for the consolidation of the Entities responsible for the consolidation of their subsidiaries, when they are drawn up in accordance with IAS/IFRS.

The Board has monitored the adequacy of the administrative and accounting system adopted, as well as its reliability to properly represent the operating events. The board has proceeded, during the course of the year, with the customary exchange of information with the person in charge of the Planning, Administration and Control Department and the firm charged with the audit, through joint meetings, and at the conclusion of which there were no critical matters that should be mentioned in this report.
The Board of Statutory Auditors has also obtained adequate information from the directors on the general performance of operations and the future outlook as well as on the most significant transactions, in terms of size or features, carried out by the Bank and its subsidiaries, and, in this regard there are no significant matters to report either from third parties or employees.
It should be noted that following the acquisition of the Magellan Group by Banca Farmafactoring S.p.A., during the course of 2016, the Bank began all the various activities for the integration of the new group – formed mainly by Magellan S.A. and its subsidiaries Magellan Central Europe s.r.o., Magellan Česká Republika s.r.o., Medfinance S.A. and Magellan S.A. Corporativa, Sucursal en España – in the banking Group, with specific regard to the financial reporting process at the consolidated level and the overall alignment to the accounting policies of the Group.

During 2016, and up to the date of the preparation of this report, the Board did not receive complaints pursuant to art. 2408 of the Italian Civil Code, or received petitions or claims or notices of reprehensible actions.

The Board of Statutory Auditors has no matters to report to the shareholders as regards the adequacy of the administrative and accounting system of the Bank and the observance of the principles of proper administration.

Monitoring activities on the adequacy of the internal control system

Banca Farmafactoring S.p.A., as the Parent Company of the Banking Group, took steps, following the acquisition of the Magellan Group, to review its internal control system with the aim of maintaining, consistently with the supervisory provisions: i) a strategic control over the evolution of the various areas of activity in which the new group finds itself operating and the various risks referring to the activities conducted; ii) an operational control aimed at ensuring that the economic, financial and equity equilibrium of the individual companies and also the Group as a whole is maintained; iii) a technical-operational control directed to the measurement of the various risk profiles brought to the group by the individual subsidiaries and the overall risk profile of the Group.

Within the process to review the internal control system, the Bank has placed its attention mainly on a different qualification of the organizational structure in terms of both strengthening the various dedicated Operating Units and greater control, by management of the Parent, over the most important foreign Entities: economic and strategic.

Specific procedures have also been established and designed to formalize the coordination and communication between the companies in the Group and the Parent Company for all areas of activity. Particular attention is being paid to the mechanisms for the integration of the computer systems and the data management processes, considering the different systems and/or accounting recognition criteria used by Magellan, also for the purpose of ensuring that the recognition is reliable on a consolidated basis.

The Planning, Administration and Control Department has therefore been assigned the task of guaranteeing an adequate representation of the phenomena of the different Group companies, through the proper execution of the accounting processes for financial statement reporting and, at the same time, monitoring the targets for the budget and the business plan through management reporting.

The Board of Statutory Auditors, as far as its responsibilities are concerned, has followed the different activities carried out and was informed about the implementation of the activity plans and the results achieved, also in terms of the effectiveness of the coordination of the activities and the information flows among the various subjects involved.

The Board of Statutory Auditors has also taken note of the activities conducted by the Supervisory Body, appointed to ensure the adequacy, observance and updating of the Legislative Decree 231/2001 organizational and management model, and monitored the requisites of efficiency and independence related thereto, through meetings and direct participation in its work.

The Board of Statutory Auditors has also verified that the Bank has observed the correspondence and submission obligations to the Supervisory bodies.

Monitoring activities on the adequacy of the risk management system

The Board of Statutory Auditors has taken note of how the Group has adopted adequate management and control mechanisms to confront the risks to which it exposed.

These safeguards, aimed at guaranteeing a management marked by cannons of efficiency, effectiveness and correctness, cover every type of corporate risk, consistently with the characteristics, size and complexity of the activities carried out by the Group.

The Bank, as described also in the "Report on the system of internal control and risk management", has adopted a system of internal control and risk management that involves each of the following according to its specific responsibilities: a) the Board of Directors, which has the role of guidance and assessment of the system's adequacy; b) the Risk Committee, which is tasked with lending support, by appropriate oversight activities, to the assessments and the decisions made by the Board of Directors regarding the system of internal control and risk management; c) the Risk Management Function and the Compliance and AML Function, which bear specific responsibilities on the subject of internal control and risk management, according to the dimensions, complexity and risk profile of the company; d) the Internal Audit Function, charged with the duty to verify that the system of internal control and risk management is functioning and adequate; e) the Board of Statutory Auditors, which monitors the effectiveness of the system of internal control and risk management.
More specifically, also at the Group level, a fundamental aspect is considered to be the optimization of the governance of risks, in observing the following risk statements:

- ensure that regulatory requirements are met, guaranteeing that the levels of capital and liquidity of the Group remain strong from the standpoint of the first and second pillars, both under normal operating conditions and under stress scenarios;
- maintain a low risk profile;
- guarantee an adequate financial leverage level, through a policy of capitalization consistent with the level of the assets;
- ensure the availability of high quality liquidity assets (Liquidity Coverage Ratio) and sources of stable funding (Net Stable Funding Ratio), such that the Group continuously maintains a level of liquidity sufficient to absorb potential shocks in the short and medium/long term;
- implement an adequate internal control system.

The Group, therefore, has adopted a structured reference framework by implementing a disciplined process based on a specific internal risk appetite framework regulation. This is evaluated by the Board of Directors in relation to the business model and the strategic plan, and calls for the approval of risk objectives and risk tolerance.
The Board of Directors has set out the guidelines for the internal control system, ensuring that the main corporate risks are identified, managed and monitored in an adequate manner. Specifically, it has assessed all types of risk at the consolidated level and has approved the assumption of risk in a broad manner for all the Group companies and for all the countries in which it operates.
The system of internal control and risk management was developed consistently with the rules and regulatory framework, with the organization structure of the Group and in line with the standards and national and international best practices. It is built on the following three levels of defense: i) first-level controls, which aim to ensure that transactions are properly executed and are performed by the operating structures that carry them out, with the support of computer procedures; ii) second-level controls (risk management and compliance controls, entrusted to the Risk Management Function and the Compliance and Anti-Money Laundering (AML)

Function), which aim to guarantee the correct implementation of the risk management process, the compliance of company operations with procedures and control over the risk of money laundering and terrorism financing; iii) third-level controls assigned to the Group's Internal Audit Function, in a staff position to the Board of Directors, which carries out independent controls, not only at the Parent but also at the subsidiary Farmafactoring España S.A. and, as a function of the Parent, for the subsidiary Magellan.

In 2016, the Bank, as the Parent Company of the Banking Group, partly due to the implementation of the considerations set out by the Bank of Italy, both as a result of the outcome of the inspection conducted during 2015, and, simultaneously with the authorization for the acquisition of the majority interest in Magellan S.A., put into place a series of actions aimed at an overall strengthening of its control Functions.

Specifically, besides hiring new resources, some of whom are Polish, the Risk Management Function and the Compliance and AML Function were separated and a new person with the necessary professional qualities was put in charge of monitoring Compliance and Anti-money laundering risks.

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.

Monitoring activities on the adequacy of the internal auditing system

The Board of Statutory Auditors has taken note that the Internal Audit Function has carried out the activities set out in the 2016-2018 three-year audit plan. This plan gives priority to the processes and activities of the Bank that are considered of the highest risk, which were agreed with the Chief Executive Officer, the Board of Statutory Auditors and the Supervisory Body, formed pursuant to Legislative Decree 231/2001, endorsed by the Risk Committee and approved by the Board of Directors.

The three-year plan is updated every year based on the risk assessment of the activity and the consequent identification of the Group's main internal and external risks.

As regards the 2016 audit plan, the Board of Statutory Auditors has taken note that the Internal Audit Function has completed the planned testing and the results will be submitted to the Board of Directors and the Board of Statutory Auditors in a future meeting.

The Board of Statutory Auditors has examined the guidelines for updating and revising the audit plan of the Group for the year 2017 which, besides covering the major risks of the Group, envisages, compared to the approved plan, the following main modifications: i) the new scope of consolidation following the expansion of the Banking Group after the acquisition of Magellan S.A. and its subsidiaries and ii) the inclusion in the audit plan of the same Magellan for the period 2016-2018.

It is confirmed that the "Audit" process has maintained certification of the Quality Management System in accordance with the professional standard UNI EN ISO 9001:2008. In addition, the Internal Audit Function at Magellan S.A. has been restructured.

Magellan S.A. reports to the Management Board through an independent director and, functionally, to the Internal Audit Function of the Parent Company, Banca Farmafactoring.

Monitoring activities on the adequacy of the organizational structure

The Board of Statutory Auditors has acquired information and monitored, as far as its responsibilities are concerned, the adequacy of the organizational structure adopted by the Bank and its actual functioning, through meetings and direct observations and through the gathering of information from the persons in charge of the functions, in addition to acquiring additional necessary information from the firm appointed to audit the financial statements, PricewaterhouseCoopers S.p.A.
The Board of Statutory Auditors, considering also the previous points discussed in this Report, believes that the organizational structure of the Bank is adequate in relation to the needs of the business currently being conducted.

Remuneration policy

The Board of Statutory Auditors has taken note that on September 29, 2016 the Board of Directors of the Bank resolved to submit to the Shareholders' Meeting the approval of modification of the Remuneration and incentive Policy, prepared in conformity with the provisions of Title IV, Chapter 2 of the supervisory provisions for banks, of Circular 285 of December 17, 2013, as well as the implementation of the provisions of the EBA (European Banking Authority) Delegated Regulation regarding Regulatory Technical Standards on identified staff, for the identification of staff having a material impact, which went into effect on June 24, 2014.
Specifically, the new remuneration and incentive policy on behalf of the components of the strategic supervision, management and control bodies, and staff of the Banca Farmafactoring Banking Group, has been the subject of interventions aimed at considering the new qualification of the Company as an intermediate-size bank, in conformity with the Supervisory Provisions on the subject and, precisely:

- the perimeter of the roles of those whose compensation is approved directly by the Board of Directors based on proposals by the Remuneration Committee has been redefined. The perimeter includes the directors invested with specific powers, Senior Executives and those in charge of the Corporate Control Functions of the Group.
- 25% of the variable remuneration to which risk-takers are entitled (both for the up front and deferred portion) must be paid using financial instruments, as required by the law for the intermediate-size banks.

With regard to the remuneration policy, the Board of Statutory Auditors has taken note that the adoption of a maximum ratio between the variable and fixed component of remuneration is 2:1.

The modifications proposed by the Remuneration Committee and approved by the Board of Directors were also approved by the Shareholders' Meeting held on December 5, 2016.

Governance

Banca Farmafactoring S.p.A. has adopted a traditional administration and control system, in which the Board of Directors is currently composed of 10 members, 5 of whom are independent. The only executive director is the Chief Executive Officer who is attributed the role of management.
Corporate governance also provides for the creation of a Supervisory Board, pursuant to Legislative Decree 231/2001, and specific committees with analytical, consulting and proactive responsibilities serving the corporate governing bodies with strategic and management supervision functions, meaning:

- the Remuneration Committee;
- the Related Party Transactions Committee;
- the Appointment Committee;
- the Risk Committee.

The Board of Statutory Auditors, which regularly takes part in all the meetings of the Board of Directors, has taken note that in 2016 the updates to all the regulations of the Bank have been approved, in order to consider the extension of the provisions of the existing policies to all of the new Banking Group, with the extension to the Magellan S.A. Group. The various updates also consider the Bank's new status as a bank of intermediate size.
In 2016, the Board of Statutory Auditors has conducted a process of self-assessment of its members and took note that the Board of Directors has also performed its self-assessment.
During the year, the Board of Statutory Auditors has issued opinions and expressed observations which the existing law and supervisory provisions for banks assign to the Board, including:

- opinion on the merits of the management accounting system memorandum;
- opinion on the Regulation of the Committee for the assessment of related party transactions;
- considerations on the integration of the Magellan Group.

Conclusions

In concluding on the monitoring activities carried out by the Board of Statutory Auditors as described above, we can reasonably affirm that the Bank's activities have been carried out in accordance with the law and the bylaws and that the organizational, administrative and accounting structures as well as its actual functioning, are adequate.
The Board of Statutory Auditors has taken note of the reports issued by the Audit Firm on February 20, 2017 pursuant to articles 14 and 16 of Legislative Decree 39/2010, which express unqualified opinions, without exceptions or observations, on the financial statements of the Bank and the consolidated financial statements of the Banking Group. The same reports also express favorable opinions on the consistency of the Report on Operations with the financial statements as set out in art. 14, paragraph 2, letter e) of Legislative Decree 39/2010.

Taking into account the above, the Board of Statutory Auditors, having considered the content of the reports issued by the auditors, has no reason, as far as its responsibilities are concerned, to oppose the approval of the financial statements for the year ended December 31, 2016 and the payment of dividends as formulated by the Board of Directors.
To this end, the Board of Statutory Auditors takes note that the Board of Directors has evaluated the motion for the payment of dividends based on conservative suppositions in order that prudent capital requirements are observed continuously in a linear manner over the course of time.

Milan,

The Statutory Auditors

Francesco Tabone

Patrizia Paleologo Oriundi

BANCA FARMAFACTORING
BFF BANKING GROUP

04 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 financial statements

We have audited the accompanying financial statements of Banca Farmafactoring S.p.A., which comprise the balance sheet as of 31 December 2016, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the 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 financial statements

The directors are responsible for the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the 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 financial statements that give a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 financial statements give a true and fair view of the financial position of Banca Farmafactoring S.p.A. 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 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 financial statements of Banca Farmafactoring S.p.A. 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 financial statements of Banca Farmafactoring S.p.A. 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 financial statements referred to this report.

Resolutions of the Ordinary Annual General Shareholders' Meeting

The ordinary Annual General Shareholders' Meeting, which met in first call on March 9, 2017, approved the financial statements for the year ended December 31, 2016, consisting of the balance sheet, income statement, statement of cash flows and the notes thereto, together with the Board of Directors' Report on Operations, acknowledging the report of the Board of Statutory Auditors and the report of the independent auditors pursuant to law
An appropriation was made from the profit for the year to the legal reserve for €16,540, to reach the maximum established by law.

The meeting also approved the payment of dividends of €42.40 for each of the 1,701,074 outstanding shares, for a total of €72,125,538, drawn from:

- profit for the year, for €70.297.179;
- retained earnings, for €1,828,359.

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