BANCA FARMAFACTORING S.p.A.

(*incorporated with limited liability under the laws of the Republic of Italy*)

€100,000,000 Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2027

The €100,000,000 Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2027 (the "**Notes**") of Banca Farmafactoring S.p.A. (the "**Issuer**") are expected to be issued on 2 March 2017 (the "**Closing Date**") at an issue price of 98.224 per cent. of their principal amount.

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 2 March 2027 (the "**Maturity Date**"). The Notes may be redeemed at the option of the Issuer in whole or in part on the Optional Redemption Date (Call) at their principal amount subject to the prior written approval of the Bank of Italy or such other relevant competent authority in Italy or in the European Union and in accordance with applicable laws and regulations (see "*Terms and Conditions of the Notes – Regulatory conditions for call, redemption, repayment or repurchase of Notes*"). The Notes are subject to redemption in whole at their principal amount at the option of the Issuer at any time in the event of certain changes affecting taxation in the Republic of Italy, as described under "*Terms and Conditions of the Notes – Redemption for tax reasons*", or the regulatory classification of the Notes as "Tier 2 Instruments" to be included in the "Tier 2 Capital" of the Issuer for regulatory capital purposes, as described under "*Terms and Conditions of the Notes – Redemption upon the occurrence of a Regulatory Event* (*Regulatory Call*)", subject to the prior written approval of the Bank of Italy or such other relevant competent authority in Italy or in the European Union and in accordance with applicable laws and regulations (see "*Terms and Conditions of the Notes – Regulatory conditions for call, redemption, repayment or repurchase of Notes*").

The Notes will bear interest from 2 March 2017 until 2 March 2022 (the "**Reset Date**") at the rate of 5.875 per cent. per annum, payable annually in arrear on 2 March each year commencing on 2 March 2018. Thereafter the Notes will bear interest from the Reset Date until the Maturity Date as described in "*Terms and Conditions of the Notes – Interest*". Payments on the Notes will be made in Euros without deduction for or on account of taxes imposed or levied by the Republic of Italy to the extent described under "*Terms and Conditions of the Notes – Taxation*".

This prospectus (the "**Prospectus**") has been approved by the Central Bank of Ireland (the "**Central Bank**") as competent authority under Directive 2003/71/EC (as amended, including Directive 2010/73/EU, the "**Prospectus Directive**") and constitutes a prospectus for the purposes of the Prospectus Directive. The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC and/or which are to be offered to the public in any member state of the European Economic Area. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market.

This Prospectus is available for viewing on the Irish Stock Exchange's website (*www.ise.ie*).

An investment in the Notes involves certain risks. For a discussion of these risks, see "Risk Factors" on page 7.

The Notes will be in bearer form and in the denominations of €100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. The Notes will initially be in the form of a temporary global note (the "**Temporary Global Note**"), which will be deposited on or around the Closing Date with a common safekeeper for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme, Luxembourg ("**Clearstream, Luxembourg**"). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the "**Permanent Global Note**") not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form. See "*Summary of Provisions Relating to the Notes in Global Form*".

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**") and are subject to United States tax law requirements. The Notes are being offered outside the United States in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Lead Manager
Morgan Stanley

The date of this Prospectus is 28 February 2017

IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Prospectus and declares that, to the best of its knowledge, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

The Issuer has confirmed to Morgan Stanley & Co. International plc (the "**Lead Manager**") that this Prospectus contains all information regarding the Issuer and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer are honestly held or made and are not misleading in any material respect; this Prospectus does not omit to state any material fact necessary to make such information contained herein (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and verify the foregoing.

This Prospectus should be read in conjunction with all information which is incorporated by reference in and forms part of this Prospectus (see "*Documents Incorporated by Reference*").

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Prospectus or as approved in writing for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Lead Manager.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied by the Issuer in connection with the offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same, or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Prospectus. The Issuer is under no obligation to update the information contained in this Prospectus after the initial distribution of the Notes and their admission to trading on the regulated market of the Irish Stock Exchange. Furthermore, save as required by applicable laws or regulations, or under the terms and conditions relating to the Notes, the Issuer does not intend to provide any post-issuance information to investors.

Neither this Prospectus nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation, or (b) should be considered as a recommendation by the Issuer or the Lead Manager that any recipient of this Prospectus or any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the condition (financial or otherwise) and affairs of the Issuer, and its own appraisal of the Issuer's creditworthiness.

Neither this Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer or the Lead Manager to any person to subscribe for or to purchase any Notes. The distribution of this Prospectus and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Lead Manager to inform themselves about and to observe any such restrictions. Neither the Issuer nor the Lead Manager represents that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered in compliance with any applicable registration or other requirements in any such jurisdiction or pursuant to an exemption available thereunder, nor do they assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Lead Manager which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Prospectus and other offering material relating to the Notes, see "*Subscription and Sale*". In particular, the

Notes have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons.

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language so that the correct technical meaning may be ascribed to them under applicable law.

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables, including percentages, may not be an arithmetic aggregation of the figures which precede them.

STABILISATION

In connection with the issue of the Notes, Morgan Stanley & Co. International plc (the "**Stabilising Manager**") (or persons acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Such stabilisation shall be conducted in accordance with all applicable laws and rules.

MARKET SHARE INFORMATION AND STATISTICS

This Prospectus contains information and statistics which are derived from, or are based upon, the Issuer's analysis of data obtained from miscellaneous sources quoted in "*Description of the Issuer*" below. Such information has been identified where used and reproduced accurately in this Prospectus and, as far as the Issuer is aware and is able to ascertain from information published by those sources, no facts have been omitted which would render such reproduced information inaccurate or misleading.

ALTERNATIVE PERFOMANCE MEASURES

This Prospectus contains the following alternative performance measures as defined by the European Securities and Markets Authority's Guidelines on Alternative Performance Measures (ESMA/2015/1415), ("**APM**") which are used by our management to monitor our financial and operating performance:

- Profit for the year adjusted: calculated by adding: i) "non-recurring costs" (See "*Selected Financial Information of the Issuer")* to ii) the line item presented in the Group financial statements "profit for the year".
- Cost/income ratio is calculated, on the basis of the line items presented in the Group financial statements, as the ratio between i) the sum of "Administrative costs" and "Impairment on tangible and intangible assets", and ii) "Operating income".
- Cost/income ratio adjusted is calculated as the ratio between i) the sum of "Administrative costs" net of "Adjustment related to non-recurring administrative costs" (See "*Selected Financial Information of the Issuer")* and the line items presented in the Group financial statements ii) "Impairment on tangible and intangible assets" and iii) "Operating income".
- ROTE adjusted is calculated as the ratio between i) "Profit for the year adjusted" (see above) and ii) the line items presented in the Group financial statements "Shareholders' equity" net of "Intangible assets".

It should be noted that APMs are non-IFRS financial measures and are not recognised as measure of performance or liquidity under IFRS and should not be recognised as alternative to performance measure derived in accordance with IFRS or any other generally accepted accounting principles. APMs are not indicative of the Group's (as such term is defined in the "*Terms and Conditions of the Notes*") historical operating results, nor are they meant to be predictive of future results. Since all companies do not calculate APMs in an identical manner, the Group's presentation may not be consistent with similar measures used by other companies. Therefore, undue reliance should not be placed on these data.

FORWARD LOOKING STATEMENTS

This Prospectus contains certain statements that are, or may be deemed to be, forward-looking, including statements with respect to the Issuer's and the Group's business strategies, expansion of operations, trends in their business and their competitive advantage, information on technological and regulatory changes and information on exchange rate risk and generally includes all statements preceded by, followed by or that include the words "believe", "expect", "will", "project", "anticipate", "seek", "estimate" "aim", "intend", "plan", "continue" or similar expressions. By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statements as a result of various factors. Potential investors are cautioned not to place undue reliance on forward-looking statements, which are made only as at the date of this Prospectus.

The Issuer does not intend, and does not assume any obligation, to update forward-looking statements set out in this Prospectus. Many factors may cause the Issuer's or the Group's results of operations, financial condition and liquidity, and the development of the industries in which they compete, to differ materially from those expressed or implied by the forward-looking statements contained in this Prospectus.

The risks described under "*Risk Factors*" in this Prospectus are not exhaustive. Other sections of this Prospectus describe additional factors that could adversely affect the Issuer's and the Group's results of operations, financial condition and liquidity, and the development of the industries in which they operate. New risks can emerge from time to time, and it is not possible for the Issuer to predict all such risks, nor can the Issuer assess the impact of all such risks on their business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not rely on forward looking statements as a prediction of actual results.

CERTAIN DEFINED TERMS

In this Prospectus, unless otherwise specified:

(i) "**Banca Farmafactoring**" or the "**Issuer**" means Banca Farmafactoring S.p.A;

(ii) references to "**billions**" are to thousands of millions;

(iii) references to the "**Conditions**" are to the terms and conditions relating to the Notes set out in this Prospectus in the section "*Terms and Conditions of the Notes*" and any reference to a numbered "**Condition**" is to the correspondingly numbered provision of the Conditions;

(iv) references to "**€**', "**EUR**" or "**Euro**" are to the single currency introduced at the start of the third stage of the European Economic and Monetary Union and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended;

(v) the "**Fiscal Agent**" means Citibank, N.A., London Branch as fiscal agent;

(vi) the "**Group**" means the group consisting of the Issuer and its consolidated subsidiaries;

(vii) references to "**IFRS**" are to International Financial Reporting Standards, as adopted by the European Union;

(viii) the "**Lead Manager**" means Morgan Stanley & Co. International plc as lead manager; and

(ix) references to a "**Member State**" are to a Member State of the European Economic Area.

WEBSITES

This Prospectus makes reference to a number of websites owned or managed by us or third parties. For the avoidance of doubt, other than specifically indicated, no information from any of these websites is incorporated herein.

DOCUMENTS INCORPORATED BY REFERENCE

The following financial information is incorporated in, and forms part of, this Prospectus:

(i) the audited consolidated annual financial statements of the Group as at and for the year ended 31 December 2016, (the "**2016 Financial Statements**") which can be found on the Issuer's website at

https://www.bancafarmafactoring.it/documents/33221/49036/Gruppo+BFF+Bilancio+Consolidato+2016+UK/ebea1b84-90ab-48cd-a5a5-e5b08296bd48

Given that the 2016 standalone financial statements ("**2016 Standalone Financial Statements**") of the Issuer have not yet been approved by the shareholders of the Issuer, it cannot be excluded that the figures to be included in the 2016 Financial Statements of the Group may differ from the corresponding figures in the 2016 Standalone Financial Statements of the Issuer on the basis of possible adjustments or integrations of such figures or the relevant information which may be deemed necessary by the relevant annual shareholders' meeting in charge for the approval of the 2016 Standalone Financial Statements of the Issuer and related reports.

(ii) the audited consolidated annual financial statements of the Group as at and for the year ended 31 December 2015, (the "**2015 Financial Statements**", and, together with the 2016 Financial Statements, the "**Consolidated Financial Statements**") which can be found on the Issuer's website at:

https://www.bancafarmafactoring.it/documents/33221/49036/BFF+Bilancio+Consolidato+2015+UK/3839f7b7-6b92-4a6b-a316-3df77a32b998

in each case prepared in accordance with IFRS and together with the accompanying notes and auditors' reports.

Cross-reference list

The tables below show where the information incorporated by reference in this Prospectus can be found in the above-mentioned documents.

Document	**Page number(s)**	
Audited consolidated annual financial statements	**2016**	**2015**
Consolidated balance sheet	60 – 61	58 – 59
Consolidated income statement	62	60
Consolidated statement of comprehensive income	63	61
Consolidated statement of changes in consolidated equity	64	62 – 63
Consolidated statement of cash flows	65 – 66	64 – 65
Notes to the consolidated financial statements	67 – 205	66 – 190
Independent auditors' report	206 – 207	191 – 193

Information contained in the above documents other than the information listed in the cross-reference list above is considered additional information and is not required by the relevant schedules of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive.

The financial statements referred to above are available both in the original Italian and in English. Only the English language versions are incorporated by reference in, and form part of, this Prospectus. The English language versions are direct translations from the Italian language documents but, in the event of any inconsistencies or discrepancies between the Italian and English language versions, the original Italian versions will prevail.

This Prospectus should be read and construed together with the information incorporated by reference herein. Copies of any document incorporated by reference in this Prospectus are available free of charge at the specified office of the Fiscal Agent, unless such documents have been modified or superseded.

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. In addition, the order in which the risk factors are presented below is not intended to be indicative either of the relative likelihood that each risk will materialise or of the magnitude of their potential impact on the business, financial condition and results of operations of the Issuer.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and consider carefully whether an investment in the Notes is suitable for them in the light of the information in this Prospectus and their personal circumstances, based upon their own judgment and upon advice from such financial, legal, tax and other professional advisers as they deem necessary.

Words and expressions defined in "Terms and Conditions of the Notes" or elsewhere in this Prospectus have the same meaning in this section. Prospective investors should read the whole of this Prospectus, including the information incorporated by reference.

Risks Related to Our Business

Our business and results are impacted by the current volatile macroeconomic environment globally and in the countries in which we operate.

The global economy, the sovereign debt crisis in Europe, the condition of financial markets and adverse macroeconomic developments in our primary markets may all significantly influence our performance. Our earning capacity and stability can be affected by the overall economic situation and by the dynamics of the financial markets.

Following the crisis in the global financial markets starting in August 2007, the markets have continued operating under difficult and unstable conditions that have required actions by governments, central banks and supranational organizations to support financial institutions, including the injection of liquidity and direct intervention in the recapitalization of some of these entities. This situation has negatively affected the financial markets and has subsequently impacted the greater economy as well. This negative context, in addition to having contributed to and accelerated deterioration in the state of public finances of EU countries, has particularly penalized banking systems such as those of Italy, Spain, and Portugal, where the exposure to sovereign debt is higher than the average for EU countries.

In addition, on 23 June 2016 a referendum was held regarding the United Kingdom's membership of the European Union. The result of the referendum was to leave the European Union, which creates a number of uncertainties within the United Kingdom and its relationship within the European Union. The result is likely to generate further increased volatility in the markets and economic uncertainty which could have a material adverse effect on our business, financial condition or results of operations. Until the terms and timing of the United Kingdom's exit from the European Union are confirmed, it is not possible to determine the full impact that the referendum, the United Kingdom's departure from the European Union and/or any related matters may have on general economic conditions in the United Kingdom.

On 4 December 2016, a constitutional referendum was held in Italy, as a result of which the proposed reforms to the Italian Constitution put forth by the Renzi government were not approved, leading to the resignation of the Italian Prime Minister. Although the consequences of such a result are not fully determinable, it is not possible to exclude that this may impact the markets and entail a negative impact on our economic and financial situation or on our business.

The ordinary activities of the banking sector have suffered a sharp slowdown, caused by the prolonged period of international crisis. In particular, many domestic and European credit institutions have been severely affected, triggering, in some cases, insolvency proceedings, complex restructuring of their liabilities or mergers with other entities.

European banks have also seen a decline in the value of assets resulting from the decline in stock and bond prices, a deterioration of the loan portfolio with an increase in non-performing loans, and situations of insolvency and additional costs caused by a write-down and reduction in the price of assets, with the consequent reduction in the ability to produce profits.

We generate a significant percentage of our revenue in Italy (97.2%, 86.7%, and 86.0% of our consolidated operating income for the years ended 31 December 2014, 2015, and 2016 respectively) and, therefore, our results depend in particular on Italian economic conditions which, in turn, are affected by European and global economic trends. Italy's GDP increased by 0.8% in 2015, compared to a decrease of 0.3% in 2014 (*Source*: *Istat*). Economic performance in Italy has been significantly influenced by the global financial crisis and has been characterized by economic stagnation. In particular, since the second half of 2011, the Italian economy went through a prolonged phase of recession that culminated at the end of 2014. Beginning in 2015, the Italian economy has entered a phase of recovery, albeit weak, due to: a gradual stabilization in domestic demand, moderately favourable dynamics in foreign trade, and an improved level of production with positive effects on employment levels.

However, on 13 January 2017, the rating agency DBRS Ratings Limited ("**DBRS**") announced that it had downgraded the Republic of Italy's Long-Term Foreign Currency and Local Currency Issuer Ratings from A (low) to BBB (high) reflecting uncertainty over the government's political ability to sustain the structural reform effort and continuing weakness in the country's banking system amid a period of fragile growth. In consideration of our exposure to public and non-profit entities as well as of the circumstance that DBRS operates as Group's External Credit Rating Agency ("**ECAI**"), our regulatory capital ratios have been negatively affected by such downgrade – see "*We may be unable to meet the minimum capital adequacy requirements*".

Our subsidiary Magellan generates a significant percentage of revenue in Poland. Therefore, its results depend in particular on Polish economic conditions which, in turn, are affected by European and global economic trends. Since the October 2015 parliamentary elections in Poland, the new government has initiated a number of new legislative measures affecting key institutions in Poland, and introducing new taxes (such as a tax on financial institutions and a retailer turnover tax). These developments and any further legislative changes may adversely affect Magellan's business, results of operations or financial condition, which in turn could have a material adverse effect on our business, results of operations and financial condition.

In an effort to address the volatility and turbulence in financial markets, the depressed macroeconomic environment and to support distressed financial institutions, national governments and international organizations have intervened on an unprecedented scale. These measures, including the introduction of austerity programs, may, however, dampen economic growth over the short, medium and longer terms. Such declining or stagnant economic growth (or a fall into recession) in the Eurozone could exacerbate the difficulty of Eurozone sovereigns and non-sovereigns in refinancing their debt as it comes due, further increasing pressure on the macroeconomic environment in the Eurozone and the global economy, which could have a material adverse effect on our business, results of operations and financial condition. If the ECB were to continue to implement an expansionary monetary policy in the future involving a further reduction of interest rates, our customers may expect us to reduce our commissions in line with market interest rates and the ECB's interventions, and as a result, unless we are able to reduce our funding costs, we may realize lower margins. Furthermore, the ECB's expansionary monetary policy may provide our customers access to different types of financing, which in turn could reduce their demand for our factoring services.

There can be no assurance that the measures put in place to address the volatility and turbulence in financial markets, the depressed macroeconomic environments and the debt of certain sovereigns in Europe will be successful. New turmoil in the banking system and financial markets, further consolidation in the banking and financial services industry, or market failures, could trigger a further crunch in credit access, low liquidity levels, and significant volatility in the financial markets. Such factors could have a number of effects on our operations, including bankruptcy of our counterparties and increase our costs of funding. Therefore, should

Italian or global economic conditions worsen, our services and products may consequently decline due to a variety of factors, including a decrease in the government expenditure in goods and services.

If conditions in the Eurozone deteriorate again and European policy makers are unable to contain such a sovereign debt crisis, we could see a reduction of, or reduced growth, of our ordinary business, an increase in our cost of credit, declines in our asset values, accelerated loan impairment losses and decreased profitability, in addition to being required to take further write-downs on our sovereign exposures or other assets. Furthermore, any material defaults, nationalizations or similar adverse events or disruptions that occur in the future (which could include one or more members leaving the Eurozone) could have a material adverse effect on our business, financial condition or results of operations.

Our business is dependent on our customers and the debtors that they supply, each of whom may face economic uncertainty and changes in the regulatory landscape which could impact their need for our services.

Our business primarily involves managing and/or purchasing the receivables of our customers (which in large part are multinational companies or large domestic businesses) owed by their debtors (the majority of whom operate in the public administration sector, including national healthcare systems). We are exposed to the risk that our customers or their debtors may become subject to bankruptcy or insolvency proceedings or be in financial distress, and, as a result, may not be able to meet their contractual obligations or enter into new contractual obligations or that debtors may cause the deterioration of our asset quality. In particular, in the instance of returning the receivables to the original seller, we may not be able to recover the full amount of the receivables that we purchased from our customers should they be insolvent. This risk is amplified in relation to new or small customers, towards whom we have recently started providing our services. With regard to these customers, we carry out credit analysis prior to engaging with them, however, we cannot rule out that they may fail to pay commission for our credit management and non-recourse factoring services.

In addition, if any of our customers become subject to bankruptcy or insolvency proceedings, they may also not be able to meet their contractual obligations, such as (although to a lesser degree) the payment of commission for our credit management services. Impairment losses on receivables and loans totalled €2,244 thousand and €1,126 thousand for the years ended 31 December 2016 and 2015.

In 2014, we expanded our non-recourse factoring business by purchasing receivables owed by financially vulnerable public entities (including municipalities, provinces and mountain communities), which at the time of purchase were already impaired assets, which however do not constitute a material part of our current business. Such activities could result in an increase of our (net and gross) non-performing exposures. We determine the price of the receivables based on the financial position of the relevant debtors and the recovery rate and time of recovery. However, we may still be exposed to capital losses and a general deterioration of asset quality as a result of our debtors' financial vulnerability, which could have a material adverse effect on our business.

We are also exposed to risks connected with each of the countries in which we operate (Italy, Spain, Portugal, Poland, Czech Republic and Slovakia). Should the central governments of these countries default, the debtors themselves may no longer be able to rely on government funding and as a result could no longer be able to repay their commercial debts.

This so-called "country risk" could affect our clients' and their debtors' financial situation, as well as our credit management business. Moreover, our securities portfolio only includes securities issued by the Italian government.

The following chart shows the incidence of central government securities on both our total assets and net equity as of 31 December 2016:

	As of 31 December 2016
	(in € thousands)
Securities portfolio [1]	2,014,405
Receivables owed by the Italian government[2]	408,700
Receivables owed by the Spanish government[2]	34,577
Receivables owed by the Polish government[2]	510

	As of 31 December 2016
Receivables owed by the Czech government [(2)]	830
Receivables owed by the Slovakian government[(2)]	687
Receivables owed by the Portuguese government [(2)]	-
Total	**2,459,708**
Incidence on total assets	51,9%
Incidence on net equity	940,2%

(1) Book value, recorded in the Group financial statements as financial activities under "*available for sale financial assets*" ("AFS") and "*held-to-maturity financial statements*" (HTM).

(2) Included in the Group's balance sheet item of "loans to customers". It relates to receivables owed by central governments, weighted at 0% for the purposes of credit risk definition.

As of 31 December 2016 and 2015 the Group's securities portfolio consists of Italian governments securities, recorded in the Group financial statements as financial activities under "available for sale financial assets" ("**AFS**") and "held-to-maturity financial statements" ("**HTM**").

As of 31 December 2016, we were owed receivables from Italian and Spanish central governments equal to €408.7 thousand €34.6 thousand, respectively, with reference to Traditional Activities, as defined below. These receivables relate to credit positions, all in performing loans, from central governments, weighted at 0% for the purpose of determining the credit risk.

The credit standing of the governments is subject to monitoring and evaluation by rating agencies. Set forth below are the ratings assigned by Standard & Poor's, Fitch Ratings, Moody's and DBRS to the Republic of Italy, Spain, Portugal, Poland, Czech Republic and Slovakia as of 31 December 2016 and 2015.

In this regard, on 13 January 2017, DBRS – which is the Group's ECAI – announced that it had downgraded the Republic of Italy's Long-Term Foreign Currency and Local Currency Issuer Ratings from A (low) to BBB (high).

Italy	**2016**	**2015**
S&P Long-term Company Rating (Foreign)	BBB-	BBB-**
Moody's Long-term Company Rating (Foreign)	Baa2	Baa2**
Fitch Long-term Company Default Rating (Foreign)	BBB+	BBB+
DBRS Long-term Company Rating (Foreign)	BBB(high)	A low

Spain	**2016**	**2015**
S&P Long-term Company Rating (Foreign)	BBB+	BBB+
Moody's Long-term Company Rating (Foreign)	Baa2	Baa2
Fitch Long-term Company Default Rating (Foreign)	BBB+	BBB+
DBRS Long-term Company Rating (Foreign)	A (low)	A low

Portugal	**2016**	**2015**
S&P Long-term Company Rating (Foreign)	BB+	BB+**
Moody's Long-term Company Rating (Foreign)	Ba1	Ba1
Fitch Long-term Company Default Rating (Foreign)	BB+	BB+
DBRS Long-term Company Rating (Foreign)	BBB (low)	BBB low

Poland	**2016**	**2015**
S&P Long-term Company Rating (Foreign)	BBB+	A-
Moody's Long-term Company Rating (Foreign)	A2	A2
Fitch Long-term Company Default Rating (Foreign)	A-	A-
DBRS Long-term Company Rating (Foreign)	A	A

Czech Republic	**2016**	**2015**
S&P Long-term Company Rating (Foreign)	AA-	AA-
Moody's Long-term Company Rating (Foreign)	A1	A1
Fitch Long-term Company Default Rating (Foreign)	A+	A-
DBRS Long-term Company Rating (Foreign)	N.A	N.A

Slovakia	**2016**	**2015**

S&P Long-term Company Rating (Foreign)	A+	A+
Moody's Long-term Company Rating (Foreign)	A2	A2
Fitch Long-term Company Default Rating (Foreign)	A+	A+
DBRS Long-term Company Rating (Foreign)	A(high)	N.A

Since our debtors are public bodies, they may be subject to regulatory changes. For instance, certain legislative measures have been implemented in certain regions of Italy aimed at the consolidation of local healthcare authorities, as a result of which our counterparties have been replaced by new entities. We may not have the same broad knowledge of these new final debtors, which may hinder our ability to, *inter alia*, assess and predict credit collection timing, credit risk and, therefore, pricing. Such measures may be implemented in other regions as well. In addition, new measures may be taken in the future to eliminate Italian provinces and carry out mergers of municipalities, which could also cause us to lose existing counterparties as the number of final debtors is reduced. Therefore, if the economic conditions of our customers deteriorate, or if changes in their regulatory landscape result in negative consequences to our operations, these risks could have a material adverse effect on our business, results of operations and financial condition.

Moreover, in the table below we indicate the amount of uncollected receivables, or losses on receivables, as well as analytic credit devaluation, carried out with reference to envisaged losses concerning future impaired receivables, as well as value readjustments concerning the data relating to the past years, all recorded in the Group profit and loss for the financial years closed as of 31 December 2016 and 2015.

	Year ended as of 31 December	
	2016	**2015**
	(in € thousands)	
Losses on receivables	206	75
Specific credit devaluation	2,548	-92
Analytic credit evaluation	-574	1,142
Value readjustments on impaired receivables	2,180	**1,126**

As the events referred to above are unforeseeable (and we have no control over the possibility of their occurrence), they could have a material adverse effect on our business, financial condition or results of operations.

As of 31 December 2016, the Group has not taken out an insurance policy in relation to the abovementioned risks.

We derive a significant portion of our revenue from a limited range of services provided in a limited set of geographies.

The activity of the Group is subject to concentration risks in both the range of services and the localization of the related offer. 84.3% of the total amount of receivables towards clients registered by the Group as of 31 December 2016, is represented by receivables towards factoring clients (i.e. receivables related to the activity of non-recourse factoring) and, among that portion, 91% is related to the activity of non-recourse factoring carried out in Italy.

As a consequence of such concentration in both the range of services and the localization, possible changes to the political situation and/or to local regulations, as well as a possible deterioration of the Italian economy and/or of the national market of the demobilization of non-performing receivables owed by the supplying companies mainly toward the public administration's entities, could have a material adverse effect on our business, results of operations and financial condition.

While the Group pursues a strategy of (i) strengthening and further growing its own Traditional Activities in additional areas of the Southern European Market where the Group itself has been active for several years (i.e. Spain and Portugal), and (ii) expanding in new European markets, organically or through acquisition as per the recent acquisition of the Magellan Group has allowed the Group to obtain a significant presence in the Eastern European Market and, at the same time, to diversify the range of financial services offered to clients, there is no certainty whether in the future the Issuer will be able to properly pursue the strategy of diversifying

its activities, in terms of both offered services and their localization, in order to reap possible positive effects, which could have a material adverse effect on our business, results of operations and financial condition.

We derive a significant portion of our revenue from a limited number of customers.

With reference to our Traditional Activities, most of our key customers are large multinational and Italian companies with whom we have built and maintained strong commercial relationships. For the year ended 31 December 2016, 46% of the total volume of our managed and purchased receivables and 40% of the volume of receivables relating to our non-recourse factoring business derived from our top ten customers. These clients have been our customers for an average period of more than 18 years as of 31 December 2016 and approximately ten years with respect to our non-recourse factoring business. However, the majority of our contracts with customers neither (i) impose any obligation on us to purchase non-recourse receivables in the future, nor (ii) do they contain any exclusivity clauses or impose any obligation on customers to continue supplying the Group, thus making it relatively simple for counterparties to exercise withdrawal rights, and therefore we have limited visibility with respect to future transactions. Therefore, we may not be able to achieve the same volume of receivables in the future, and the loss of any of our key customers or a significant decrease in the business generated from them, could have a material adverse effect on our business, results of operations and financial condition.

We may incorrectly evaluate DSO relative to the payments of the debtors.

We estimate the income that we can generate from our receivables portfolio on the basis of our past experience and a database of information relating to debtors belonging to the Italian national health system gathered over the past 30 years.

The pricing of each receivable acquired in the context of our non-recourse factoring business (which, as of 31 December 2016, represented 51% of the Traditional Activities volumes, while the remaining 49% consists in the credit management activity) is determined on the basis of our "days sales outstanding" ("**DSO**") and the creditworthiness of the relevant customer and debtor. This metric allows us to manage the liquidity we need to run our business and determine our margins. Therefore, errors in evaluating our DSOs relating to our margins or their modification due to the adoption of legislative measures in the countries in which we carry out our business may reduce both our expected and actual margins, and determine a decrease in the Group's revenues due to the possible fluctuation of the demand for our services and a possible decrease in the revenues generated by commissions and interest.

In particular, should the public administrations, in relation to which the Group operates, adopt and effectively implement more efficient management policies of their commercial debts and reduce the delays in payment, the Group margins could be negatively impacted due to the potential decrease in the demand for factoring and, at the same time, for the discount on the nominal value of the receivables applied at the moment of the receivable purchasing.

We carefully monitor the payment patterns of debtors through our database, which tracks payment patterns and average DSOs for each debtor in order to estimate the average timing for collection. However, we cannot rule out the possibility that our estimates may be incorrect. For example, we may not have sufficient information to make a correct pricing determination in respect of public administration debtors not belonging to the national health system. In addition, following the implementation of certain legislative measures aimed at the reorganization of the public administration (including the consolidation of local health authorities in a number of regions in Italy or the completion of mergers of municipalities in accordance with the Stability Law 2016 (Law 208/2015)), we may have to interact with new debtors not registered in our database, which could give rise to difficulties in estimating the DSOs and the pricing.

Increased inefficiencies in the national health system and public sector in Italy, Spain, Portugal, Poland, Czech Republic and Slovakia, and in particular in any inefficiencies in resource allocation, could lead to increased DSOs and (excluding any possible financial advantages resulting from late payment interest), as a result, our estimates of timing for collection and future liquidity could be incorrect and management costs could increase. Finally, we cannot rule out the possibility of a default or partial failure to pay the loans or receivables owed to the Group by public administrations, due either to the commencement of insolvency procedures or the

increase in the number and costs of existing litigation. Either of these circumstances could have a material adverse effect on our business, results of operations and financial condition.

Furthermore, the potential stagnation of the market which may occur in the future (along with the persisting context of challenging completion), if not accompanied by an increase in the diffusion of the factoring product in the relevant market, may expose the Issuer to the risk of not maintaining its growth rate and profitability level compared to those registered in the past.

The Magellan Group's market of reference is the "alternative financing market", where the Group is one of the first movers, operating in this market for approximately twenty years. Therefore, the market may be impacted by an exacerbation of the competitive scenario due to its attractiveness in terms of accessible market areas. The future development of this market shall depend on the business's ability to increasingly meet the public healthcare entities' and municipalities needs for liquidity and financial resources, taking into account the competition relating to a range of businesses of a different nature (*i.e.* entities owned by universal banks), with this particular reference to countries like Poland, the Czech Republic and Slovakia.

These execution risks concerning the market of reference, along with the uncertainty relating to the government intervention in terms of public spending in general and specifically regarding public healthcare entities in general, may expose the Issuer to the risk of not meeting the expected growth and profitability rates, which could in turn have a material adverse effect on our business, results of operations and financial condition.

Our heavy reliance on non-recourse factoring prevents us from benefitting from the legal protections of the guarantee of solvency.

Under the Italian law, the sale of receivables can either be non-recourse or recourse. Non-recourse factoring involves the assigning creditor legally guaranteeing the existence of the receivables, but does not guarantee the solvency of the assigned debtor (i.e. that the assigned debtor will effectively pay its debt to the acquiring assignee). This is considered ordinary sale of receivables under the Italian Civil Code. In recourse factoring, the assigning party assumes the negotiated guarantee of the solvency of the assigned debtor. The assigning party that guarantees the solvency of the assigned debtor is liable up to the price of the factoring, and not the amount of the receivable assigned, as well as the legal interest accrued on this sum from the day it was collected by the assigning party until the day of settlement. The assigning party should, therefore, repay the assignee the expenses incurred for the factoring and for any enforcement of the assigned debt.

Within the context of our factoring business, our primary activity consists in the purchase of receivables on a non-recourse basis and, therefore, we assume the risk (inherent to this form of factoring) of possible insolvency of the assigned debtors (*i.e.* failure to fulfil their payment obligations), instead of benefitting from an assignor guarantee in relation to the assigned debtors' solvency, which the parties may agree to under Italian law.

Following the acquisition of the Magellan Group, we also carry out with recourse factoring, although to a lesser extent.

As of 31 December 2016 the book value of the loans and receivables to customers arising from non-recourse factoring activities was equal to approximately €2,107 billion, with an incidence of 84.3% on the total amount of loans to and receivables from customers.

The table below sets forth our receivables from customers, broken down by the different product lines as of 31 December 2016 (which includes Magellan) and at 31 December 2015.

	31 December 2016	**31 December 2015**
	(in € millions)	
Factoring	2,107.0	1,926
Leasing	6.9	-
Loans to customers	317.2	-
Other loans	68.0	36.0
Total Due from customers	**2,499.1**	**1,962**

Receivables from factoring clients as of 31 December 2016, which represent approximately 84.3% of the receivables held by the Group from factoring clients, consist of receivables purchased on a non-recourse basis.

If there were to be an increase in the number of insolvent assigned debtors, we may not be able to benefit from the guarantee of solvency of the assigning creditor or obtain adequate redress. The inability to recoup losses from such receivables could have a material adverse effect on our business, results of operations and financial condition.

The creditworthiness of our counterparties may deteriorate.

We are exposed to risks related to the deterioration of the creditworthiness of our counterparties, including debtors and customers, for example following a breach of contract. Such credit quality deterioration risk involves both (i) counterparty risk, and (ii) concentration risk (i.e. if we have highly concentrated exposures to counterparty that face credit quality issues).

If the transactions entered into with a counterparty represent a credit position for us at the time of insolvency of such counterparty, we will experience a loss. Our counterparty risk is inherent in the temporary investment of liquidity with maximum durations not exceeding one month and derivative contracts entered into to hedge our interest rate and exchange rate risk. Our application of the "standardized" methods of calculating counterparties' risk entails a low degree of risk. The creditworthiness and the relative financing granted to the financial counterparties are regularly reviewed (at least annually) and the exposure is constantly monitored.

In the past three years, we have brought our credit exposure classification and evaluation policies in line with applicable supervisory regulations, international accounting standards and the Supervisory Review and Evaluation Process ("**SREP**"). Our capital absorption relating to credit risk as of 31 December 2016 and 2015 was equal to €82,998 thousand and €60,809 thousand, respectively. Our capital absorption relating to concentration risk as of 31 December 2016 and 2015 was equal to €13,289 thousand and €11,522 thousand, respectively.

In relation to the business activities carried out by the Group, the risk concerning the deterioration of credit quality to which the Group is exposed is closely connected to the so called "country risk".

In relation to the non-recourse factoring activities carried out in Spain and Portugal, the Group's portfolio of receivables mainly comprises receivables that are certified as certain debt owed by the relevant debtor from a financial, legal and administrative standpoint (the so called "*conformidad*" in Spain and "*numero de compromiso*" in Portugal). However, it is not possible to exclude that the Group may come to hold receivables that have not received such certification, therefore entailing a decrease in the certainty of the receivables and the consequent risk of disputes.

Furthermore, in relation to the factoring activities carried out by Magellan in Poland, Magellan purchases, for an amount corresponding to 4% of due from customers outstanding for the financial year ended 31 December 2016, overdue receivables from the suppliers of independent public healthcare entities (the "**Centers**") and, in such instances, the execution of the assignment contracts is conditioned upon the acceptance of the assignment by the founding entity of the Center. Magellan also offers solutions consisting of factoring-like products, assuming all risks connected to the receivables, including the commitment to finance them and paying the supplier regardless of an unsuccessful payment collection, as well as the risk of possible disputes. Said activity therefore entails the risks connected to non-recourse factoring, including the assumption of the risk of the assigned debtor becoming insolvent (and therefore failing to pay) and, secondly, of the client becoming insolvent. This activity constitutes 20% of the exposures relating solely to Magellan.

In 2015 the Issuer started the activity of Non-recourse factoring concerning tax credits which are held against the competent Italian tax authorities. In relation to such activity, the Issuer carries out due diligence on the receivables prior to their purchase and it is contractually provided that any residual set offs that may take place in the course of payment by the Italian tax authority shall be reimbursed to the original assignor (it being understood that the risk of not receiving any set offs is borne by the original assignor).

We cannot exclude the possibility that in the future there could be a deterioration of our receivables portfolio, which in turn could have a material adverse effect on our business, results of operations and financial condition.

Governments may implement efficiency measures that could significantly reduce DSO and demand for our services.

We are exposed to the risk that the governments of the countries in which we operate could adopt measures aimed at improving efficiency of the national health system and public sector, and at reducing DSOs. For example, starting from 2014 the Italian and Spanish governments have implemented measures aimed at making the relationship between the national health system/public sector and their suppliers more efficient by providing funds to the relevant public entities, thus shortening the timing for payment and ensuring the payment of receivables. In Italy, these measures were implemented through Legislative Decree No. 35 of 8 April 2013 (converted into Law No. 64 of 6 June 2013) and Legislative Decree No. 66 of 24 April 2014, and in Spain the "*Fondo de Liquidez Autonomico*" and the "*Plan de Pago*" were introduced in 2012.

Although the above measures resulted in a reduction of DSOs and thereby increased profitability in the short-term (given that we collected receivables sooner than expected), any structural measures undertaken by national governments which would successfully increase the efficiency of the national health system and public administration-which could be achieved in the future by the Italian, Spanish, Portuguese, Polish, Czech and Slovakian governments through the introduction of other new measures-could result in a reduction in (i) the demand for our services, (ii) our commission rates and the margin we receive; and (iii) DSOs, with a consequent reduction in income received from late payment interest and other types of interest. Any such changes could have a material adverse effect on our business, results of operations and financial condition.

We are subject to extensive regulation in the banking sector and may in the future be adversely affected by regulatory measures applicable to our business.

We operate in a highly regulated environment for banks and the laws and government regulations related to our industry may change from time to time. In particular, we are subject to extensive regulation and supervision by the Bank of Italy and the European Central Bank within the context of the Single Supervisory Mechanism and the European System of Central Banks. We are subject to law and regulations that govern the activities carried out by banks and are aimed at maintaining banks' safety and soundness and limiting their exposure to risk. In addition, we must comply with any financial services law which may apply to our marketing and selling activities.

Such supervisory authorities oversee various aspects of our business, including liquidity levels and capital adequacy, anti-money laundering and privacy protection, with the goal of ensuring both the transparency and fairness of our relationships with our customers, and compliance with registration and reporting obligations.

We have established specific procedures and internal policies in order to comply with applicable regulations. However, we cannot exclude that we may breach such regulations in the future, particularly with respect to anti-money laundering and fairness in dealing with clients, or that the competent authorities may fail to apply the correct interpretation of such regulations. This could have a material adverse effect on our business, results of operations and financial condition.

Our failure to comply with applicable laws or regulations, and/or a negative outcome of the inspection by the Bank of Italy, as described below, could disrupt our operations and have a material adverse effect on our business, results of operations and financial condition.

The Basel III Proposals were implemented in the European Union by the Capital Requirements Directive 2013/36/EU ("**CRD IV**") and Capital Requirements Regulation (Regulation (EU) No 575/2013) ("**CRR**"), which were enacted in June 2013.

In addition, in May 2014 the Bank Recovery and Resolution Directive (Directive 2014/59/EU) ("**BRRD**") was enacted. The BRRD provides for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms. The goal of the BRRD is to provide authorities with common instruments and powers to address banking crises preemptively in order to safeguard financial stability.

The BRRD requirements fall into three main categories, namely; (i) crisis prevention measures, including recovery plans drawn up by companies and resolution plans drawn up by resolution authorities, (ii) early intervention measures to ensure the prompt intervention by competent authorities following the first signs of a

credit institution's or an investment bank's financial instability, and (iii) crisis resolution measures, including the bail-in tool which transfers a large portion of a bank's restructuring costs from the Member State to the bank's shareholders and creditors, thus reducing any moral hazard risks. If a distress situation were to occur, as a result of which we became subject to resolution procedures, our shares would be written down and/or any liabilities would be cancelled or substantially reduced. Moreover, the shareholding of our shareholders may become considerably diluted if other liabilities were converted into shares at particularly unfavourable conversion rates.

As some of the banking laws and regulations which apply to our business have only recently been adopted, the manner in which those laws and regulations are applied to the operations of financial institutions is still evolving. There can be no assurance that such laws and regulations will be adopted, enforced or interpreted in a manner that will not have an adverse effect on our business, financial condition and results of operations.

In addition, our factoring business is subject to extensive and complex legislation and regulations, the most significant of which is Directive 2011/7/EU, which is applicable to late payments and establishes, among other things, the rate of late payment interest. The application of this directive in Italy, Spain, Portugal, Poland, Czech Republic and Slovakia enables us to make, with a reasonable degree of certainty and uniformity, profit estimates for our non-recourse factoring business. Although we have extensive knowledge of the regulatory framework which applies to us and are able to quickly adapt to any regulatory changes introduced from time to time, any changes to the current regulations, including at an EU level, could lead to unanticipated costs and have a material adverse effect on our business, financial condition and results of operations. In particular, any significant reductions to late payment interest rates could adversely affect our profitability.

As of the date of this Prospectus, there have been various proposals for changes to the legal and regulatory framework regulating the sector in which we operate. The proposed changes, which could either negatively or positively affect our business, include, *inter alia*:

- the adoption of the so-called "**Basel IV**" which includes a new package of rules on the capital and liquidity of banks and introduces standards and criteria which are more stringent than those provided by Basel III;
- the amendment to the legislation on the so-called "past due" criteria for the determination and treatment of past due exposures towards debtors belonging to the public administration. In particular, the classification of the exposures towards debtors belonging to the public administration could be aligned to the classification adopted for the private sector. As a result of such change of the regulatory framework, the exposures would be "past due" if amounting to over 5% of the total exposure towards the same debtor and overdue by more than 90 days, instead of the preference treatment where a single payment interrupts the past due calculation;
- the potential application of different and more stringent criteria to determine the risk weight of exposures to entities belonging to the Italian national health system and/or of the public administration, which could negatively affect the capital absorption of our risk-weighted assets. In particular, the potential change of the regulatory framework described above, would increase the amount of our exposure classified as "past due"; and
- the "EU Banking Reform" Package published on 23 November 2016, which is aimed at introducing certain changes to the provisions included, *inter alia*, in the CRD IV, the CRR and the BRRD.

The introduction of new regulations in the future or any changes to the legislation currently in force in the countries in which we operate may require us to comply with new standards in ways that we cannot currently predict or restrict our ability to do business in those countries and may require us to further strengthen our capital. As a result, we could incur additional costs for having to adapt the features of our products and services or distribution and control structures to comply with such new regulations. As a result, we may also have to limit our business operations. This could have a material adverse effect on our business, financial condition and results of operations.

We are required to make yearly contributions to the Single Resolution Fund and the Interbank Deposit Guarantee Fund, and in exceptional circumstances we may be required to make additional contributions.

Directive 2014/49/EU on deposit guarantee schemes (the so-called "**Deposit Guarantee Schemes Directive**" or "**DGSD**") and the BRRD, as well as the establishment of the Single Resolution Mechanism (Regulation (EU) No 806/2014 of 15 July 2014), introduced significant changes to the framework regulating the financial distress of banks, with the aim of strengthening the single market and the stability of the European banking system.

Based on the legal framework introduced as a consequence of the transposition into Italian law of these directives, financial institutions are required to provide financial resources in order to fund the Italian Interbank Deposit Guarantee Fund (*Fondo Interbancario di Tutela dei Depositi*) and the National Resolution Fund (*Fondo di Risoluzione Unico Nazionale*, which was transferred to the Single Resolution Fund (*Fondo di Risoluzione Unico*)).

With respect to the funding of the Italian Interbank Deposit Guarantee Fund, the DGSD introduced a new mixed funding mechanism based on ordinary contributions (*ex-ante*) and extraordinary contributions (*ex-post*). The contributions are calculated in proportion to the amount of guaranteed deposits of each bank to the total guaranteed deposits of Italian banks participating in the Interbank Deposit Guarantee Fund and the degree of risk assumed by such bank compared to the degree of risk assumed by all other banks participating in the Interbank Deposit Guarantee Fund.

Italian banks shall pay annual ordinary contributions until the Interbank Deposit Guarantee Fund has financial resources equal to at least 0.8% of the total guaranteed deposits of Italian banks participating in the Interbank Deposit Guarantee Fund. The Italian government is required to ensure that such level is reached by 3 July 2024. Contributions to the Interbank Deposit Guarantee Fund are made annually.

The Board of the Interbank Deposit Guarantee Fund (*Fondo Interbancario di Tutela dei Depositi*) established the total contribution for 2016 to be equal to €449.2 million to be distributed among the members based on the amount of protected deposits. As a result of the implementation of these measures, we have incurred costs of approximately €0.5 million for ordinary contributions in the financial year ended 31 December 2016, compared to €0.1 million for ordinary contributions in the financial year ended 31 December 2015.

On 26 November 2015, the General Meeting of the Interbank Deposit Guarantee Fund resolved upon the provision of a voluntary scheme for the implementation of support-measures in favour of member banks, which are either in a state of insolvency or at risk of entering into a state of insolvency. During the course of 2016, the fund amounted to a total of €700 million. In May 2016, Cassa di Risparmio di Cesena asked for the intervention of such voluntary scheme to increase its share capital and overcome certain financial difficulties. On 15 June 2016 the management board of the voluntary scheme approved such measure and subscribed the capital increase of €280 million.

Our share of the intervention approved by the management board of the voluntary scheme amounted to approximately €0.2 million and was paid in September 2016, while no contribution for voluntary scheme was asked during fiscal year 2015. The relative fair value as of 31 December 2016, communicated to the Interbank Deposit Guarantee Fund, was approximately equal to €0.1 million. We have communicated our intention to withdraw from the voluntary scheme at the earliest possible time. However, we may not exclude that we will be requested to make additional contributions in the future.

With respect to the Single Resolution Fund, the contributions are calculated in proportion to the amount of liabilities of the relevant bank (excluding guaranteed deposits and own funds) to the total liabilities (excluding guaranteed deposits and own funds) of Italian banks and the degree of risk assumed by the relevant bank compared to the degree of risk assumed by all other Italian banks. The BRRD provides that Italian banks must pay annual ordinary contributions until the Single Resolution Fund has financial resources equal to at least 1% of the total guaranteed deposits of financial institutions authorized in all participating Member States. This level must be reached by 1 January 2023.

For the years ended 31 December 2016 and 2015 we have been required to make ordinary contributions to the Single Resolution Fund equal to approximately €1.1 million and €0.4 million, respectively. Ordinary

contributions to the Single Resolution Fund are made annually and have already been paid and recorded for both financial years. In addition we have been required to make extraordinary contributions to the Single Resolution Fund in 2016 and 2015, following the financial distress of four Italian financial institutions (i.e. Banca Popolare dell'Etruria e del Lazio S.C, Cassa di Risparmio della Provincia di Chieti S.p.A., Banca delle Marche S.p.A. and Cassa di Risparmio di Ferrara S.p.A.) respectively equal to €2,179 thousand and 1,101 thousand. The extraordinary contributions were paid and recorded by us in 2015 and in 2016. As of the date of this Prospectus, we have not been required to make any further extraordinary contributions.

If the financial resources of the Interbank Deposit Guarantee Fund and/or the Single Resolution Fund are insufficient to cover any losses, or if as a result of costs or other expenses incurred by such funds in compliance with the regulations governing their operation the above percentages are not reached, financial institutions may be required to make extraordinary contributions, as in the case of the four Italian financial institutions mentioned in the paragraph above.

As of 31 December 2016 the recorded cost, gross of income taxes, was equal to €3.8 million. Such cost was composed of (i) €1.1 million representing the annual contribution to the Resolution Fund which has already been paid, (ii) €0.5 million representing the estimated monthly amount to be contributed to the Interbank Deposit Guarantee Fund, which was calculated on the basis of certain data as of 30 September 2016, and (iii) €2.2 million representing the extraordinary contribution to the Resolution Fund. For 31 December 2015, the gross cost was equal to €1.6 million. As of 31 December 2016, the contribution, net of tax, was equal to €2.6 million. Should we continue to be required to make large contributions, or should the guarantee funds fail, this could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to meet the minimum capital adequacy requirements.

Capital adequacy rules for banks set out the prudential requirements for minimum capital and asset quality, as well as risk mitigation instruments.

The Basel III framework also provides for the creation of additional capital buffers in excess of the minimum requirements in order to provide banks with high quality capital resources to be used in times of market stress, to prevent any malfunctioning of the banking system and to avoid disruptions in the credit granting process, as well as to address the risks posed by systemically important banks at the global or domestic level. The total amount of such capital buffers is referred to as the combined capital buffer requirement (the "**Combined Capital Buffer Requirement**"). The Combined Capital Buffer Requirement must be met using CET1 Capital items. As of 31 December 2016 we were compliant with such requirement. A failure to satisfy the Combined Capital Buffer Requirement (or the capital conservation buffer) subjects banks to capital conservation measures, such as restrictions to dividend distributions. In addition, banks must present to the Relevant Authority a capital conservation plan indicating the measures (including additional capital increases) that they intend to adopt in order to comply with the Combined Capital Buffer Requirement. As a consequence, if we are unable to comply with the Combined Capital Buffer Requirement (or the capital conservation buffer), we may be required to strengthen our capital and investors may be asked to provide us with capital contributions.

As of 31 December 2015, the Common Equity Tier 1 capital ratio, the Tier 1 Capital ratio and the Total Capital ratio of the banking group – as defined under Article 64 of the Consolidated Banking Act (the "**Banking Group**") – comprising the Issuer and Farmafactoring España were all equal to 24.3%. The same ratios determined in accordance with the criteria for prudential consolidation set out under the CRR – according to which, as of that date, BFF Luxembourg S.à r.l. ("**BFF Luxembourg**") and BFF Lux Holdings S.à r.l. ("**BFF Lux Holdings**") were included in the consolidation perimeter for the purposes of the CRR, while the entities of the Magellan Group were excluded – amounted to 23.9% (Common Equity Tier 1 capital ratio), 24.0% (Tier 1 Capital ratio) and 24.1% (Total Capital ratio) as of 31 December 2015.

As of 31 December 2016, the Common Equity Tier 1 capital ratio, the Tier 1 Capital ratio and the Total Capital ratio of the Banking Group, computed without including profits generated during the year, were all equal to 16.7%. The same ratios determined in accordance with the criteria for prudential consolidation set out under the CRR – including the entities of the Magellan Group in the consolidation perimeter, but excluding BFF Lux Holdings, that was put into liquidation on 20 June 2016 – were respectively equal to 16.4%, 16.5% and 16.6%, in the absence of AT1 and Tier 2 issuances, above the 15% target for dividend distribution autonomously established by the Group. The decrease in our own funds equal to approximately 9.2% as of 31

December 2016 and, concerning the solvency indicators as of 31 December 2016, a CET 1 reduction of 7.6%, a Tier 1 reduction of 7.6% and a Total Capital Ratio reduction of 7.6% was mainly due to the completion of the Magellan Transaction. As of the same date, the estimated risk weighted assets increased by approximately €344.8 million.

See "*—We may be unable to successfully integrate Magellan's business*". As of the date of this Prospectus our capital adequacy levels, at a consolidated level, exceed the regulatory limit.

However, in 2016 we were subject to the Bank of Italy's SREP in accordance with applicable regulations. As of the date of this Prospectus, we have not received any formal decision by the Bank of Italy with respect to our capital adequacy, therefore the 2015 SREP regulations still apply to us. Accordingly, we cannot exclude that specific capital requirements – additional to those set out under the CRR – or other measures will be imposed by the Bank of Italy in consideration of the outcomes of the assessment conducted within the 2016 SREP process. In particular, on 4 October 2016 the Bank of Italy amended the Circular No. 285 of 17 December 2013 in order to set the capital conservation buffer applying to Italian banks (on a solo and consolidated basis) – which was equal to 2.5% for banking groups until 31 December 2016 – at (i) 1.25% from 1 January 2017 until 31 December 2017, (ii) 1.875% from 1 January 2018 until 31 December 2018, and (iii) 2.5% starting from 1 January 2019. Pending the completion of the 2016 SREP process, we cannot confirm whether the reduction of the capital conservation buffer requirement may actually entail a reduction of the capital requirements applying to the Bank and the Group, due to the possibility that the Bank or the Group are required by the Bank of Italy to comply with additional own fund requirements.

Also in consideration of the foregoing, no assurance can be given that we will be able to maintain the capital adequacy level as of 31 December 2016 or that our capital ratios will not fall below the minimum requirement in the future. Under such circumstances, we may be forced to adopt measures to strengthen our capital, reach appropriate capital adequacy levels for our business operation or meet standards established by applicable prudential requirements or required by supervisory authorities. If this were to occur, the Bank of Italy or other Relevant Authorities may take actions that could have a material adverse effect on our business, financial condition and results of operation.

In addition, due to the rules on prudential consolidation applying under the CRR, our compliance with the capital adequacy requirements also depends on the economic and financial position of BFF Luxembourg. Even if BFF Luxembourg is a financial holding company which does not perform any additional business, and has undertaken to maintain a dividend distribution policy capable of keeping a Total Capital Ratio not lower than 15%, at both the levels of the Group and the consolidation perimeter for the purposes of the CRR, we cannot exclude that the worsening of the financial position of BFF Luxembourg might have a negative impact on our compliance with the capital adequacy requirements. This could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, we cannot accurately predict whether future changes may be made to certain criteria established by the Relevant Authority in the countries in which we operate and in particular, whether changes will be made to the exposure classes established by the CRR for states and central administrations (currently 0%) as well as local authorities (20%). Accordingly, such changes could make it more difficult for us to satisfy and comply with capital adequacy levels, standards and/or regulations.

On 13 January 2017, DBRS – which is the Group's ECAI – announced that it had downgraded the Republic of Italy's Long-Term Foreign Currency and Local Currency Issuer Ratings from A (low) to BBB (high). This downgrade had a negative impact on our capital adequacy levels through an increase in the value of risk weighted assets, due to our exposure to public and non-profit entities. In particular, as of 31 December 2016, the incidence of the downgrade of Italy by one notch by Group's ECAI has an estimated pro forma effect on our regulatory capital ratios by approximately 3.6% if it were to be applied as of that date. A negative impact on risk weighted assets may also derive from the occurrence of other factors – in addition to any other future downgrades regarding the Republic of Italy – such as loans' impairment, assets' value deterioration, increases in litigation expenses or any other external or unpredictable factors beyond our control, including further request from the relevant Supervisory Authorities. Should we fail to meet the required capital adequacy levels for these or any other reason, it could have a material adverse effect on our business, financial condition and results of operation.

Any downgrade related to the debt of the Republic of Italy may also affect the ability of the Bank to use the liquidity granted by the European Central Bank to fund its operations. In particular, should the Issuer decide to use its portfolio of Italian sovereign debt securities in order to enter into repurchase ("repo") transactions with the European Central Bank for liquidity purposes, any such downgrade may determine the application of increased haircuts, with a consequent reduction, albeit limited, on the liquidity value generated by such securities.

Our capital structure may be affected by the implementation of the MREL requirements or possible future amendments to the current regulatory framework on MREL.

Under the BRRD credit institutions are required to comply at all times with a minimum requirement for own funds and eligible liabilities ("**MREL**"). According to Article 45 of the BRRD, the MREL shall be calculated as the amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds of the credit institution. Unlike the "Pillar I" minimum capital requirements set forth in the CRR, the appropriate MREL requirement shall be determined by the competent resolution authorities on an institution-by-institution basis. Such determination shall be made by the resolution authority taking into account, *inter alia*, the resolvability, risk profile, systemic importance and other characteristics of any such institution.

Based on the works conducted by the European Banking Authority, on 23 May 2016 the European Commission enacted the Commission Delegated Regulation (EU) No. 2016/1450, containing the regulatory technical standards specifying the criteria relating to the methodology for setting the MREL (the "**MREL RTS**"). According to the MREL RTS, the default loss absorption amount to be held by each credit institutions shall be at least equal to the capital requirements applying under the CRD IV and CRR (including the combined buffer requirements as well as any firm-specific own funds requirements imposed by the competent authority). However, subject to certain conditions, the loss absorption amount determined by the relevant resolution authority may be higher (or lower) than the default loss absorption amount, based on the specific circumstances of the case (e.g. considering the business model, funding model or risk profile or the existence of any impediment to resolvability, etc.). The minimum MREL requirements may be met through any items that are eligible for inclusion in the credit institution's own funds under the CRR and the eligible liabilities meeting the requirements set forth in the BRRD and related implementing provisions (such as, in particular, the liabilities that are issued and fully paid up, have a remaining maturity of at least one year, do not arise from derivatives, etc.). Resolution authorities may provide for the application of a transitional period in order to allow credit institutions to satisfy the applicable minimum MREL requirements.

On 14 December 2016 the European Banking Authority published its "Report on the Implementation and Design of the MREL Framework" (the "**EBA MREL Report**"). As highlighted in the EBA MREL Report, as of the date when such document was published no actual MREL decision had been taken by resolution authorities, while only the three EU resolution authorities responsible for setting MREL for global systemically important banks ("**G-SIBs**") established in the EU had published their policy (or publicly communicated their policy intentions) for setting MREL for institutions in their jurisdictions.

A key aspect of the current debate on MREL requirements is related to the interactions between the BRRD framework and the final principles regarding the total loss-absorbing capacity ("**TLAC**") standard for G-SIBs published by the Financial Stability Board ("**FSB**") on 9 November 2015. Similarly to the MREL, the TLAC standard is aimed at ensuring that G-SIBs have sufficient loss absorbing capacity available in case of resolution in order to minimize the impact on financial stability, ensure the continuation of critical functions and avoid exposing taxpayers to loss. However, unlike in the case of the MREL requirements under the BRRD, the FSB proposals define the "Pillar 1" minimum TLAC requirements to be met by all G-SIBs.

In particular, according to the term sheet published by the FSB (the "**TLAC Term Sheet**"), minimum TLAC must be (i) at least 16% of the resolution group's risk-weighted assets with effect from 1 January 2019 (and at least 18% with effect from 1 January 2022), alongside with any applicable regulatory capital buffers, and (ii) at least 6% of the Basel III leverage ratio denominator as from 1 January 2019 (at least 6.75% as from 1 January 2022). Resolution authorities should in any event be allowed to impose additional firm-specific external TLAC requirements under certain circumstances. According to the FSB the minimum TLAC requirement must be satisfied before any surplus common equity is available to satisfy the capital buffers required under the CRD IV and CRR framework. The TLAC may comprise instruments that are eligible for inclusion in the Tier 1 Capital or Tier 2 Capital of the relevant institutions as well as other liabilities meeting

the requirements set out in the TLAC Term Sheet – which, in general, requires such liabilities to be contractually subordinated and junior in the statutory creditor hierarchy to excluded liabilities.

On 23 November 2016 the European Commission presented the "EU Banking Reform" package, which contains, *inter alia*, a number of provisions aimed at amending the BRRD also with a view to implementing the TLAC requirement. Based on the approach proposed by the European Commission, the TLAC requirement will be integrated into the general MREL rules, so that there will be no duplications deriving from the application of two parallel systems. The European Commission proposed to introduce a minimum harmonized "Pillar 1" MREL requirement which will exclusively apply to G-SIBs, while the MREL requirements applying to credit institutions that do not qualify as G-SIBs should follow the same "Pillar 2" approach currently envisaged under the EU legislation. The proposal introduces the concept of "MREL guidance" and provides that any breach of applicable MREL requirements may lead to a breach of combined capital buffer requirement (thereby triggering possible restrictions on distributions and discretionary payments to the holders of regulatory capital instruments and employees, in consideration of the rules on the maximum distributable amount). In line with the TLAC proposal, the reform package also provides for the introduction of an external MREL requirement and an internal MREL requirement applying to entities belonging to a banking group.

As we do not qualify as G-SIB, the TLAC principles published by the FSB as well as the "Pillar 1" MREL requirement provided under the "EU Banking Reform" package by the European Commission should not apply to us. In addition, as of the date of this Prospectus we have not received any determination by the Relevant Authority with respect to the application of existing MREL requirements to the Issuer and/or any other entities of the Group.

However, the full implementation of the MREL requirements and completion of the review process currently conducted by EU authorities also as a consequence of the TLAC proposal may affect our capital structure as well as the value of the Notes. In particular, we may be requested in the future to issue capital instruments or additional liabilities that are eligible for the purposes of the MREL (including Tier 2 Capital instruments) in order to meet such new requirements. There is currently no assurance that we will be able to raise such additional capital and any failure to do so may have a material adverse effect on our business, financial condition or results of operations.

In addition, the European Commission's proposal on the implementation of TLAC requirement may be subject to further changes and amendments. As a result, it is not possible to give any assurances as to the ultimate scope and nature of the resulting obligations, or the impact that the new measures will have on our business, financial condition or results of operations.

Our exposure to Italian government sovereign debt is significant and we may be adversely impacted by any negative change in the creditworthiness of the Italian government.

We are exposed to the sovereign debt of the Italian government, which as of 31 December 2015 was equal to approximately €2,170 billion (*Source*: *IMF World Economic Outlook April 2016*). The nominal, book and fair value of Italian government securities held by the Group as of 31 December 2016 were equal to €1,971.5 million, €2,014.4 million and €2,018.0 million, respectively; the incidence of Italian government securities on our total assets (using the book value) had increased to 42.5%. The nominal, book and fair value of Italian government securities held by us as of 31 December 2015 were equal to €1,218.5 million, €1,252.3 million and €1,256.3 million, respectively; these Italian government securities (using the book value) represented 37.7% of our total assets. We are therefore exposed to changes in the price of Italian public debt securities. Any tensions in or volatility affecting the sovereign bond market could have a material adverse effect on our business, results of operation and financial condition. As of 31 December 2016 and 2015, we did not hold any structured securities in our portfolio.

The securities held in our AFS portfolio are variable rate securities (CCT-Treasury Certificates), with maturity dates falling within five years, while those held in our held-to-maturity (HTM) portfolio are fixed rate securities (BOTs, BTPs and CTZs) with maturity dates related to the source of committed and unsecured funding held by us in accordance with our internal policy. The average maturity of securities is 3.37 years for our AFS portfolio and 1.24 years for the HTM portfolio. The total average maturity of our portfolio is 1.64 years.

Given that the composition of our securities portfolio and the characteristics of our business involve a significant exposure to the Republic of Italy, if the central Government and/or one or more public administrations were to default or delay in their payments, we may suffer losses that could potentially have adverse effects on our economic and financial situation. See "*—Our business and results are impacted by the current volatile macroeconomic environment globally and in the countries in which we operate*".

The credit standing of the Italian government, like that of other sovereign states, is subject to monitoring and evaluation by rating agencies. Any downgrade of the credit rating of Italian sovereign debt and changes to interest rates could reduce the value of Italian government securities, which in turn could negatively impact our business, results of operations and financial condition. Any increase in the cost of financing at a sovereign debt level could negatively impact the financing costs of our business and limit the liquidity on which our business depends. If the Basel IV rules were to be implemented, government securities held by EU banks could be subject to weighting criteria and weighting factors could be aligned to those applied prior to the adoption of the ECB's anti-spread measures in 2012 which involved large purchases on the secondary market of government securities issued by distressed countries. The introduction of a more stringent weighting factor on government securities issued by the Italian government could have a significant adverse effect on our capital requirements with regards to government securities.

Any downgrade concerning the Italian sovereign debt may result in a reduction of value of our securities. Starting from 1 January 2018, any reduction of value of securities classified in our AFS portfolio would have an impact on our capital requirements, since an exemption from the fair value adjustment on our own funds will apply thereafter, and with respect to the refinancing of our overall portfolio, there would be an increase in any amounts paid as collateral for transactions.

Credit risk relates to the possibility that the Italian government, finding itself in difficulties, may not partially/totally be able to repay its securities at the contractually agreed due dates. In these circumstances, the tensions and developments of the international and European financial markets could impact the domestic economic situation of Italy. If these circumstances occur, it could have a material adverse effect on our business, results of operation and financial condition.

On 13 January 2017, DBRS announced that it had downgraded the Republic of Italy's Long-Term Foreign Currency and Local Currency Issuer Ratings from A (low) to BBB (high). As a result, Italian sovereign debt securities have been subject to a haircut across various different maturities for the purposes of repurchase ("repo") transactions with the ECB. In general, should the Issuer decide to use its portfolio of Italian sovereign debt securities in order to enter into repo transactions with the European Central Bank for liquidity purposes, any downgrade related to the debt of the Republic of Italy may determine the application of increased haircuts, with a consequent reduction, albeit limited, on the liquidity value generated by such securities. Liquidity risk could arise from us having difficulties and not managing to refinance, in full or in part, our own securities portfolio on the financial market as a result of a possible increase in tensions in the national and international macroeconomic situation and a possible deterioration in the credit standing of the Italian government. In such cases, we could be forced to dispose of, in full or in part, our own securities portfolio (including HTM) at prices below the book value and/or increase the share of securities it has to refinance using own funds, which could have a material adverse effect on our business, financial condition, or results of operation.

Our dependence on access to the capital markets to maintain certain levels of liquidity and to obtain long-term financing could have a material adverse effect on our business, financial condition, or results of operation.

In order to carry out our business, in particular our non-recourse factoring business, we rely on stable and high quality funding resources. As part of our regular non-recourse factoring business, we may not receive payments within the time frame we had estimated, especially with regard to national health system debtors and other debtors with whom we only have a recent track record. This gives rise to the risk that we may not be able to rely on the liquidity we need to run our business, including the acquisition of receivables. Therefore we may need to access the capital markets in order to support our capital resources.

Our ability to access funding sources on favourable economic terms is dependent on a variety of factors, including a number of factors outside of our control, such as liquidity constraints, general market conditions

and confidence in the Italian and European banking system. Moreover, since obtaining a banking license, we have been able to diversify and expand our sources of funding, while also significantly reducing the corresponding funding costs.

There is no assurance that in the future we will be able to maintain the same conditions which permit us to access existing financing sources at comparable terms of cost and availability, or that we will be able to renew our existing financing at equal terms and conditions. Specifically, (i) our first bond issue will mature on 12 June 2017, (ii) our second bond issue will mature on 21 June 2021, and (iii) as of the date of this Prospectus, Magellan has issued bonds for a total nominal amount equal to PLN 292 million and €29 million, with a range of maturity dates between 2017-2019. Therefore, we will need to be able to continue to allocate sufficient financial resources for their repayment as of the relevant dates. See "*Description of the Issuer—Funding*".

The global financial crisis has significantly reduced liquidity levels and medium to long term financing. Any downgrade of the public rating in the countries in which we operate (Italy, Spain, Portugal, Poland, Czech Republic and Slovakia) could result in an increase of the financing cost at a sovereign debt level which, in turn, could impact on the financing cost of our business and thus limit available liquidity and our business profitability.

The fear of counterparty credit risk between banks has significantly increased, resulting in a reduction of interbank lending and of the level of confidence of banks' customers. In addition, other financial institutions that have financed us in the past may see us as a competitor now that we have obtained a banking license. This could affect our ability to access financial resources on the same terms as we are able to currently.

Should we no longer be able to access, maintain or refinance funding sources or should we be unable to find sufficient financial resources for the operation of our business, this could have a material adverse effect on our business, results of operations and financial condition.

In addition, we carry out refinancing transactions with the ECB using trade eligible credits deriving from factoring activities with the public administration through the Collateralized Banks Assets (*Attivi Bancari Collaterali*) platform ("**ABACO**") which allows us to access the Eurosystem by securing receivables owed by the public administration purchased as part of our non-recourse factoring business. We only minimally used the ABACO platform (approximately €2.8 million as of 31 December 2014, approximately €130,000 as of 31 December 2015 and €0 as of 31 December 2016). However, we cannot exclude that our use may increase in the future. ABACO is the platform established by the Bank of Italy for the management of eligible loans. To be eligible, a receivable must meet specific eligibility requirements such as the type of debtor/guarantor, high credit standards and minimum amount. As of the date of this Prospectus, our eligible assets include receivables owed by the public administration. ABACO allows us to access financing by using receivables owed by the public administration as collateral for repayment of the loan. If the rules relating to the access to the ABACO platform and/or the type of eligible credit were to change in a way that is prejudicial to us (for example by excluding receivables owed by the public administration from the definition of eligible assets) this could negatively affect our business and we may need to access different types of financing and/or rely more heavily on the sources of funding we currently use. This could have a material adverse impact on our business, results of operations and financial condition.

From 2014, the extension of non-recourse factoring to receivables due from: (i) local authorities that have been subject to a procedure of financial distress and/or rebalancing; (ii) local authorities that might be subject to such procedures; or (iii) local authorities subject to compulsory administrative liquidation who purchase assets already impaired at the moment of the purchase, might result in a lengthening of either the estimated collection times or negotiations with debtors, which might lead to a reduction of capital. This activity could also entail a material increase in the number of the Issuer's (net and gross) non performing loans. Conversely, an excessive level of funding sources compared to our financial needs could lead to a return on liquidity lower than its cost, which could impact our profitability, and thus could have a material adverse effect on our business, results of operations and financial condition.

We may be unable to monetize assets we pledge as collateral under some of our funding sources.

In addition to the secured financing sources granted to the Group by the banking system (representing approximately €405 million as of 31 December 2016, not taking into account repurchase ("repo") transactions

and considering that financial sources granted by the banking system in favor of Magellan are mainly represented by secured financing), we may have access to liquidity guaranteed by the ECB by offering as collateral Italian government bonds registered in our investment portfolio and receivables towards the public authorities in relation to our factoring business as a collateral using the ABACO platform (the "**Collateral**"). As of 31 December 2016 such amount corresponded to €0 million. Moreover, we also use securities included in our portfolio as Collateral to fund our "repo" transactions entered into with third parties on the market. However, it may be impossible to monetize the Collateral as a result of the inability of or delay by our debtors to pay their relative debts. As a result, we may not be able to refinance or repay these forms of financing. In particular, there is the risk that it may be impossible to monetize in the short term without, *inter alia*, worsening the Issuer's liquidity risk as at the term of the financing transaction the resources are again available for new refinancing transactions and/or used to face the liquidity risk of the Group given the high level of marketability of the relevant investment activities.
In terms of liabilities and commitments, our Collateral had a nominal value of €0 as of 31 December 2016 and a nominal value of €1.1 million as of 31 December 2015, comprising €1.1 million of financial assets (over which a pledge has been granted in favour of the ECB and other financial institutions on the basis of *Cassa Compensazione e Garanzia* regulations) and €164 thousand of receivables from customers (pledged by the ECB through the ABACO platform) almost entirely resulting from factoring operations for receivables from the public authorities.

Should the Italian state not be able to repay the Government Bonds making up the Collateral and/or to repay receivables due from the public authorities forming the Collateral, and/or should one or more of the public authorities or the third-party debtors, with regard to which we have granted a pledge over receivables due as Collateral, not be able to repay their debts, in full or in part, it may become difficult or impossible for us (in the absence of equivalent forms of refinancing) to repay the abovementioned forms of financing, or it could force us into accessing more costly forms of refinancing and/or burdensome conditions than usual. Any of these circumstances could have a material adverse effect on our business, results of operations and financial condition.

The seasonal fluctuations in our volumes may result in disruptions to our operations.

Due to our customers' financial requirements, we tend to concentrate the purchase of receivables at the end of the financial year and in the final months of each quarter. Consequently, our business is seasonal, resulting in peaks in the use of capital and demand for liquidity. On the other hand, we carry out the collection of receivables at various times throughout the year, resulting in more uniform levels of distribution throughout the year. Therefore, throughout the year we experience relatively high cyclicality in our financial statements and, in particular, significant changes to the volumes of our assets on our balance sheet.

Our business is exposed to the risk that external factors (such as extraordinary payments made by the public sector) occurring during the periods in which our business experiences the seasonality peaks, could have disproportionate effects on our business operation. In particular, depending on the specific circumstances and the periods in which such events occur, our business could experience fluctuations in terms of volume of purchased receivables, outstanding receivables or collections, which could have a material adverse effect on our business, results of operations and financial condition.

We may be unable to meet the objectives of our growth strategy.

We pursue a growth strategy designed to expand our business into different segments of the national health system and public administration in Italy, Spain and Portugal, and into new and similar European markets organically or through acquisitions, as was the case in the Eastern European Market with the acquisition of Magellan. In order to achieve this growth strategy we have started to take advantage of cross-selling opportunities arising from: (i) a customer base primarily consisting of large multinational companies providing services to the public administration, including the national health system of the countries in which we operate, and (ii) the synergies between our credit management and non-recourse factoring businesses.

Although the financial years of 2013, 2014 and 2015 showed positive results, we have experienced a more subdued growth rate of revenues (gross interest income and net commissions) (CAGR 1.8%) albeit the significant increase in the receivables purchases on a non-recourse basis, mainly due to a decrease in Italy of the returns on the receivables portfolio and the reduction of the payment times which took place in 2014. The

development of the active commissions for the management and credit collection service has a decreasing trend in terms of business volumes due to the reduction in fee percentages applied, *inter alia*, for the purposes of customer retention. Even though from 2014 we have benefitted from a favourable development of interest rates in the Eurozone, also in relation to the refinancing activity of government bonds (through Open Market Operations or "OMA" Auctions held by the ECB in the so called "full allotment" regime and the use of repo transactions), we cannot exclude that the expansive monetary policy implemented by the ECB in the relevant time frame may remain in place on a long-term basis and therefore the Group may not be able to recover from the possible increase in costs of funding through increasing commissions and/or through the margins applied to clientele, also taking into consideration the high competitiveness of the market. An increase in the rates by the ECB would result in an increase in the late payment interest rate with a positive effect to interest income. Moreover, the Group's activities (particularly the Traditional Activities) may be impacted by the policies which may be adopted in order to reduce payment times and improve the efficiency of the public sector in the countries in which we carry out our business. The data as of 31 December 2016 shows a 4.2% increase in the consolidated interest income, net of Magellan's contribution.

As of 31 December, 2016, net profits showed an increase of 15.6% compared to the previous year, excluding non-recurring charges and income. For more information, see "*Selected Financial Information of the Issuer*".

We cannot accurately predict whether such actions and the investments we have made to support our growth strategy will be effective or profitable. For example: (i) increasing volumes in order to strengthen our market share, and/or (ii) introducing our services to new foreign markets (such as Portugal) and new segments of public administration (including the purchase of tax credits claimed by companies from the competent Italian tax authorities), may not produce the results we expected since we do not have extensive experience or a database with sufficient information on payment procedures in the new markets and business sectors. In 2015, we also expanded our non-recourse factoring business to debtors of the non-health public administration in Spain (including the both the private and public sectors) and made investments to support our growth in the Italian, Spanish and Portuguese markets (including the launch of "*Conto Facto*" in Italy and "*Cuenta Facto*" in Spain as of 31 December 2016 there were 14118 "*Conto Facto*" and "*Cuenta Facto*" accounts opened within the Group in Italy and Spain, for a total collection of €822,4 million), and, starting from 2016, also in the German market (through the online platform *Welstparen.de*), which could turn out to be ineffective. In addition, the investments we made since 2014 in new personnel to support growth may not reach adequate quality levels or we may not be able to retain such personnel. The high level of specialization of our key personnel in our credit management and non-recourse factoring businesses may also hinder our growth strategy of targeting new markets.

As of 31 December 2016, the percentage of financial resources deriving from "*Conto Facto*" and "*Cuenta Facto*" equals to 20% of the total resources used by the Group (including the resources to be used in order to refinance the securities portfolio). The Group term deposit accounts do not provide the possibility of the client to make an early withdrawal.

Furthermore, since 2014 we have established a strategy aimed at diversifying and expanding our distribution channels. We have entered into agreements with banks, brokers and other financial institutions including insurance and reinsurance companies ("**Intermediaries**") in order to promote our services amongst such Intermediaries' customers. These agreements provide for the exchange of data and are aimed at the reporting of factoring opportunities to us by Intermediaries and the promotion of our services amongst any of the Intermediary's customers that are creditors of the government and/or the national healthcare system. Intermediaries are not involved in the negotiations and agreements which we have entered into directly with individual customers. Given that we have developed these indirect distribution channels only recently, we are exposed to the risk that the pool of targeted customers has not been identified correctly and that the resources invested for the development of commercial relations do not generate the expected results. The agreements entered into with Intermediaries include confidentiality clauses. However, we cannot rule out that Intermediaries may breach their confidentiality undertakings and disclose confidential information regarding our services to third parties. In addition, these agreements do not contain exclusivity clauses in our favour, and therefore Intermediaries may also endorse the services provided by our competitors amongst the same pool of customers. Furthermore, we are exposed to reputational risks if Intermediaries do not properly represent our products, services and activities to customers or conduct their activities in a way which is not in line with our code of ethics.

As of 31 December 2016, the distribution via the abovementioned Intermediaries has generated business volumes of €88,711 thousand in Italy (representing 3.4% of the business volumes generated in Italy) and €15,268 thousand in Spain (representing 4.4% of the business volumes generated in Spain), for a total of €103,977 thousand (representing 3.5% of the business volumes generated at a Group level).

Moreover, in line with our growth strategy of penetrating European markets with similar characteristics to the Italian, Spanish and Portuguese markets, in June 2016, we, through our subsidiary Mediona: (i) acquired 97.13% of the share capital of Magellan, a leading operator on the market for the supply of financial services in the health sector in Poland, the Czech Republic and Slovakia; (ii) subsequently exercised the right to acquire the remaining minority shareholding in Magellan (squeeze-out right) and (iii) Magellan's extraordinary shareholders' meeting on 30 November 2016, adopted a resolution on Mediona's (as the target) merger with Magellan (as the acquiring company), which has been completed as of the date of this Prospectus and as a result of which BFF became the sole shareholder of Magellan. We are exposed to risks connected with the financial commitments undertaken to acquire Magellan as a portion of the relative purchase price was obtained under a loan in PLN expiring on 31 May 2019 (see *Description of the Issuer—Funding—Magellan Loans*). If our acquisition of Magellan does not produce the growth or benefits we expected, this could have a material adverse effect on our business, results of operations and financial condition. For more detailed information concerning the acquisition of Magellan, see *Description of the Issuer—Acquisition of Magellan*).

In addition, we are also considering starting to operate in other markets in the future. In February 2017, we submitted our first filing with the Bank of Italy to offer factoring services in Greece under the freedom to provide services, while the beginning of operations is expected to occur not earlier than the second quarter of 2017. See "*Description of the Issuer—Recent Developments—Expansion of our business in Greece*".

Although we recorded positive results for the years ended 31 December 2014, 2015 and 2016, we cannot exclude that, due to factors beyond of our control, in the future we may be unable to maintain and achieve the same or similar rates of growth and profitability levels, or that we may record negative results which progressively weaken our capital structure, having possible adverse effects on our economic and financial situation. We are also exposed to the risk that we may be unable to implement part or all of our growth strategy or within the timeframe we expected, that the assumptions on which we based our growth strategy may be incorrect or that our growth strategy may not achieve the results we expected. Any such failure to develop, revise or implement our growth strategy in a timely and effective manner could have a material adverse effect on our business, results of operations and financial condition.

We may be unable to successfully integrate Magellan's business.

We are exposed to risks related to the acquisition of Magellan, and in particular risks related to (i) the integration of an acquired company within our Group, (ii) the business of Magellan and its subsidiaries, and (iii) the impact of the acquisition of Magellan on our Group's results.

The financial contribution of the Magellan Group to our results for the year ended 31 December 2016 and since the completion of Magellan Acquisition was a profit of €2.9 million which includes €2.7 million for non-recurring costs incurred since June 2016.

Before the acquisition, Magellan was not subject to the regulatory framework concerning banks and/or financial intermediaries and remains an unregulated business. However, as Magellan belongs to a banking group, it must adopt certain processes and procedures in accordance with the Group regulation. In this regard, it is not certain whether Magellan is capable of fully and/or efficiently complying with the applicable rules and regulations following its entrance into the BFF banking group.

Whether we can achieve synergies and growth as a result of our acquisition of Magellan will mainly depend on our capacity to successfully integrate Magellan within our Group. Difficulties could arise concerning the coordination of two different business models, management and staff, as well as the integration of IT systems, structures and existing services. The integration of Magellan within our Group will also lead to higher costs. Furthermore, should we be unable to fully integrate the managing control systems or operating procedures we could be fined by the competent authorities. Any failure to achieve desired synergies could have an adverse effect in terms of earnings, growth opportunities and the development of business volumes.

The acquisition of Magellan also involves risks connected with the growth in new markets (including Poland and to a lesser extent Slovakia and the Czech Republic) where we have not carried out business before and therefore do not have the same level of experience as that acquired on the Italian market. Among these risks is the risk of not being able to retain Magellan's key management. We are also exposed to country risks related to Poland, Slovakia and the Czech Republic and to increased credit risk towards Magellan's counterparties. With respect to such markets, there are certain risks connected with the default of central governments and the impact that this may have on debtors' ability to repay their debts, as well as any regulatory changes that could affect our credit management and non-recourse factoring businesses.

In addition, as a result of the completion of the Magellan acquisition (i) our consolidation perimeter for the purposes of the CRR was extended to include Magellan and its subsidiaries within our prudential scope, (ii) our consolidated Common Equity Tier 1 Ratio and Total Capital Ratio, calculated by reference to the Banking Group as of 31 December 2016, were equal to 16.7% and 16.7%, respectively, and (iii) our consolidated Common Equity Tier 1 Ratio and Total Capital Ratio by reference to the regulatory reporting as of 31 December 2016, calculated in relation to our consolidation perimeter for the purposes of the CRR, were equal to 16.4% and 16.6%, respectively. Although Magellan is not subject to banking regulation, it is in the process of adopting a set of procedures to comply with the requirements under the applicable banking regulation. As evidenced in the tables below, as of 31 December 2016 the Own Funds of the consolidated perimeter for the purposes of the CRR, including Magellan Group, and of the Banking Group stand at €234.7 million and €235.3 million, respectively, and the overall exposure to risks, with regard to the activity carried out, has shown adequate in relation to capital resources and selected risk profile.

Consolidated perimeter for the purposes of the CRR	**31 December 2016**	**31 December 2015**
	(in € millions except percentages)	
Own Funds	234.7	258.0
CET 1 Capital Ratio	16.4%	23.9%
Tier 1 Capital Ratio	16.5%	24.0%
Total Capital Ratio	**16.6%**	**24.1%**

Banking Group	**31 December 2016**	**31 December 2015**
	(in € millions except percentages)	
Own Funds	235.3	259.3
CET 1 Capital Ratio	16.7%	24.3%
Tier 1 Capital Ratio	16.7%	24.3%
Total Capital Ratio	16.7%	24.3%

The decrease in Own Funds and the capital ratios was mainly due to the acquisition of the Magellan Group which had an effect on Own Funds equal to €22 million, primarily composed of the acknowledgement of goodwill, and greater capital requirements equal to €27 million, relating to the Magellan Group activities. The capital adequacy requirements do not take into account the profit recorded for the first half of 2016, thus assuming a dividend payout of 100.0% of consolidated reported net income for the year 2016, as proposed on 13 February 2017 by the Board of Directors to the shareholders' meeting upon approval of the 2016 accounts.

In relation to the Banking Group, our risk weighted assets increased by €344,793 thousand from 2015 to 2016 due to an increase in our business volumes. In particular the increase was due to an increase in credit risk, mainly due to an increase in volumes, which in turn caused an increase in the weighted and non-weighted exposures towards the various counterparties and in particular, towards local and public authorities, both weighted at 20% following the diversification of our counter debtors and the increase of operations in Spain. The increase in credit risk as of 31 December 2016 is mainly due to the acquisition of Magellan and amounts up to €27 million.

We paid approximately €103.1 million to acquire Magellan, including €22.1 million as goodwill, calculated as the difference between the book value of the acquired equity estimated as of the purchase date and the purchase price. Such amount could change within the 12 months following the purchase date as a result of the allocation of the purchase price to the individual assets and liability items ("**Purchase Price Allocation**" or

"**PPA**"). At the end of each financial year there will be an evaluation of the amount recorded as goodwill (*i.e.* an impairment test) in order to determine any impairment, in accordance with IAS 36 ("**Impairment Test**"). Should our ability to generate cash flows or our economic results worsen or significantly differ from the estimates and forecasts concerning Magellan in the future, we would need to make adjustments to the book value of the goodwill. Such adjustments, equal to the difference between the recoverable value and the book value of the goodwill, would involve recording write-downs in our income statement with a corresponding material adverse effect on our business, results of operations and financial condition.

On 18 May 2016, in connection with the authorization for the Magellan Transaction (as defined below), the Bank of Italy recommended that we adopt several measures in order to ensure integration with Magellan and its subsidiaries and that the resulting new structure of the Group complies with the requirements of healthy and prudent management, and with certain specific obligations imposed by applicable banking regulations. See "*Description of the Issuer—Acquisition of Magellan*". If we were not able to correctly implement the measures recommended by the Bank of Italy, or if their implementation involved high and/or unexpected costs, this could have a material adverse effect on our business, results of operations and financial condition.

Therefore, our ability to successfully integrate Magellan into our business depends on several factors, many of which are beyond our control. The acquisition of Magellan may disrupt our ongoing business and distract our management from other responsibilities. Any such disruption or manifestation of the above risks could have a material adverse effect on our business, results of operations and financial condition.

We are exposed to credit risk towards Magellan's counterparties.

We are exposed to credit risk in relation to Magellan's business, i.e. the risk of a contracting party's failure to pay its liabilities, which would expose Magellan to financial losses. The credit risk management objective is to build a stable and well-balanced portfolio of financial assets and minimize the risk of impairment in relation to recorded exposure, whilst at the same time maintain the projected profitability and credit portfolio value. In the course of its business Magellan enters into transactions with creditworthy parties and, if necessary, the risk of financial losses due to default is reduced with the use of collateral. In addition, Magellan's exposure to credit risk has been monitored on a continuous basis.

The activities carried out by Magellan involve both the public and private sectors. Creditworthiness of public sector entities is analysed on the basis of the delay in liabilities repayment and converted into commercial code entities according to the relevant provisions of the Polish act on medical activity (the "**Act on Medical Activity**"). The credit risk evaluation procedure pertaining to private sector entities subject to with bankruptcy risk involves several different features and parameters. For each transaction, the credit risk is measured when analysing a transaction request and then continuously monitored during the course of the transaction, including updating or changing external conditions and financial standing of debtors as required. The expected credit risk level is secured with collateral accepted by Magellan, the value of which is then monitored and depreciated when necessary. Magellan also monitors exposure concentration risk towards individual entities or groups of related entities. The credit and transaction procedures adopted by Magellan allow only authorized individuals to make credit decisions. In particular, each potential transaction is subjected to an initial credit decision made by individuals who are appointed according to the rules regarding credit competencies in Magellan and its subsidiaries. Magellan's Credit Risk Department evaluates credit risk and monitors their asset portfolio. The assets held by Magellan are mainly loans to and receivables from public and publicly owned healthcare institutions and local government entities, which, as of the date of this Prospectus, do not present a risk of bankruptcy. The factoring without recourse towards the public sector only represents a minor segment of Magellan's business, due to strict Polish legal requirements. In addition, Magellan also carries out a small with recourse factoring activity.

The counterparty verification procedure that Magellan uses to assess creditworthiness is tailored to Magellan's business model and is consistent with market standards. However, it cannot be ruled out that, despite passing the verification process, the counterparties do not meet their obligations toward Magellan. A failure of Magellan's debtors to complete their obligations may have a negative impact on Magellan's financial condition and its ability to fulfil its own obligations. This could have a material adverse effect on our business, results of operations and financial condition.

Certain products provided by Magellan were invalidated by the Polish Supreme Court.

Magellan offers financial services in the health care sector to suppliers of medical products and services and Centers controlled by public authorities. Some of their financial services and products have been subject to legal proceedings and rulings of the Polish Supreme Court, regarding their compliance with Art. 54 of the Act on Healthcare Activities, which requires the consent of a Center's founding body in order to change a creditor.

Magellan previously offered products collectively referred to as "Guarantees". Through these "Guarantees", Magellan agreed to secure or pay suppliers' receivables on behalf of the Centers. As a result of paying a Center's debt to suppliers, by law Magellan acquired the right to the suppliers' receivables from the Centers.

On 9 January 2015, the Polish Supreme Court ruled in one case that the Guarantee was invalid on the grounds that the aim of the Guarantee was to change the Center's creditor from the supplier in question to Magellan, and therefore the transfer of rights to the receivable to Magellan itself was invalid. This was ruled to be in violation of Article 54 of the Act on Healthcare Activities. After the Polish Supreme Court's ruling, the legal status of the receivable reverted to its previous status and, as a result, the supplier's receivable from the Center remains unpaid for because Magellan's payment under the Guarantee is no longer recognized by law. Under arrangements made between Magellan and the supplier in question, the supplier's receivable are to be used to satisfy Magellan's claim against the supplier in compensation for the original payment made under the Guarantee.

According to the consolidated financial statements of the Magellan Group for the year ended 31 December 2015, the total potential risk arising from unfavourable rulings in proceedings concerning Guarantee products that have already been concluded and those pending as of 31 December 2015, was estimated at PLN 2.8 million, a figure that primarily compromises possible court fees and costs to be refunded to the suppliers.

Through one of its products, Magellan enters into consortium agreements with suppliers. Both parties reach an agreement with the Center. Based on these agreements, Magellan is entitled to remuneration from a Center for the service provided by the consortium, whereas the supplier receives a payment from Magellan beforehand. In its judgment on 2 June 2016, the Polish Supreme Court ruled that a consortium agreement should only be agreed upon for the mutual execution of the parties' obligations and not for one of the parties to acquire rights to the receivables. The judgment points out that these agreements may be in violation of Article 54 of the Act on Healthcare Activities, therefore making the transfer of receivables invalid. The issue has been remanded to the Appeals Courts which, in this context, may decide not to adopt the principle set out in the Polish Supreme Court's decision.

According to Magellan's financial estimates, the total potential risk arising from unfavourable rulings in proceedings concerning "Consortium" that have already been concluded and those pending as of December 2016, was estimated at approximately PLN 300,000 a figure that compromises possible court fees.

The above mentioned judgments are in line with other rulings of the Polish Supreme Court, in which they apply a broad interpretation of Article 54 of the Act on Healthcare Activities. The Polish Supreme Court has already ruled in previous cases concerning Magellan that products such as suretyship, "Guarantees" or remittance may be regarded as legal actions resulting in a change of creditor, even if indirectly.

In 2015 Magellan filed motions with the Polish Constitutional Tribunal regarding the constitutionality of Article 54 of the Act on Healthcare Activities. However, considering the legal uncertainties regarding the Article in general, particularly following the unfavourable rulings mentioned above, as well as Polish Supreme Court precedents and the uncertainties regarding claims brought before the Polish Constitutional Tribunal, some products have been phased out of Magellan's product offer. Although Magellan has modified its offer to diminish the financial impact of these rulings, we cannot exclude the possibility that more cases will arise as a result of these rulings, resulting in a further increase in the amount of fees Magellan will have to pay and the potential loss of additional interest from outstanding "Guarantees", consortium agreements, suretyships and remittance which would have a material adverse effect on our business, results of operations and financial condition.

As of 31 December 2016, the Magellan Guarantee business amounts to PLN 29.9 million, equal to €6.8 million, representing 0.2% of the total asset of the Group at the same date; considering that these products

have been withdrawn from the market, their relative commercial weight is progressively reducing (59% compared to 31 December 2015).

Our business is exposed to a variety of operational risks, including fraud, errors, security breaches or other adverse events, some that are wholly or partially out of our control.

In conducting our business we are exposed to different types of operational risk, such as the risk of losses resulting from, among others: (i) internal or external fraud; (ii) customer claims and disputes; (iii) unauthorized activity or transactions in capital markets; (iv) penalties for breaches of any applicable laws; (v) errors, omissions and delays in providing our services; (vi) inadequacy or incorrect functioning of internal procedures, including, in particular, failure to follow procedures for the identification, monitoring and management of business risk; (vii) shortcomings in the preparation and/or preservation of the documents relating to our transactions; (viii) human errors or lack of resources; and (ix) damage to property caused by weather, other conditions or natural disasters. Our procedures may prove to be inadequate to cover all types of risks that could arise. There can be no assurance that we will not suffer losses from operational risk in the future. The occurrence of any of these risks could have an adverse effect on our business, results of operations and financial condition.

Our business activities require us to record and process a large number of transactions and handle large amounts of money accurately on a daily basis. The proper functioning of financial control, accounting or other data collection and processing systems is critical to our business and to our ability to compete effectively. Given our high volume of transactions, errors may be repeated or compounded before they are discovered and rectified, and there can be no assurance that risk assessments made in advance will adequately estimate the costs of these errors. Additionally, we face the risk of theft, fraud or deception carried out by clients, third-party agents, employees and managers. If persons are able to circumvent our security measures, they could wrongfully use our confidential information or that of our clients, which could expose us to a risk of loss, regulatory consequences or litigation and could negatively impact our reputation and brand name. Consequently, we could suffer reputational and/or financial harm, which could have a material adverse effect on our business, results of operations and financial condition.

If, for example, our information systems failed, were shut down or breached, even for a short period of time, it could result in considerable costs for information retrieval and verification or in wrongful use of our confidential information or that of our clients (including personal data). We would also be unable to serve some customers' needs which may lead to us losing their business. Even though we work with our clients, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and we have back-up recovery systems and contingency plans that we consider to be state-of-the-art, there can be no assurance that such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed by us. This, in turn, could expose us to a risk of loss or litigation and could have a material adverse effect on our business, results of operations and financial condition.

Although we maintain a system of controls designed to keep operational risk at appropriate levels, we have suffered losses from operational risk and there can be no assurance that we will not suffer losses from operational risk in the future.

We have adopted the measures required under Legislative Decree of 8 June 2001, No. 231 ("**Decree 231**") and, as of the date of this Prospectus, we are not implicated in any sort of proceeding commenced under Decree 231. However, we cannot exclude the possibility of such an event in the future. For example, should any of our managers or employees engage in misconduct in carrying out their duties, the mechanisms we have in place may be deemed inadequate and we may be subject to sanctions (including fines and, in the most serious cases, disqualification, prohibition to carry out our business, suspension or revocation of licenses and authorizations) which could have an adverse effect on our business, results of operations and financial condition. We must also comply with the money laundering legislation set forth by Legislative Decree of 21 November 2007, No. 231. In addition, the Board of Directors of Farmafactoring España approved the "Farmafactoring España S.A. Organizational, Management and Control Model pursuant to art 31-bis of the Criminal Code" (the "**Model**") in order to comply with article 31-bis of the Spanish Criminal Code. We cannot exclude that, in carrying out our business, we may breach such legislation. For example, by not properly carrying out background checks on customers, we may breach the requirements of Decree 231.

We are also exposed to risks connected with the electronic invoicing obligation for receivables from the public administration, as set out in Legislative Decree of 24 April 2014, No. 66. Furthermore, any malfunction and/or error in the systems adopted by our customers to comply with this new legislation could result in delays in the collection of receivables, write-offs or a reduction in the volumes we manage or our points of sale, which could have an adverse effect on our business, results of operations and financial condition.

As of the date of this Prospectus we have experienced a standard amount of malfunctioning connected to our business, which have been resolved on time and without any material impact on our business and activities.

The capital absorption relating to operational risk was equal to €29.8 million and €24.5 million as of 31 December 2016 and 2015 respectively.

Should we breach any of the requirements we are subject to or experience a major issue with any operational risk, this could have an adverse effect on our business, results of operations and financial condition.

Any malfunction or defect in our information and technology ("IT") systems could materially impact our ability to operate our business.

Our business relies on the proper and uninterrupted functioning of our IT and data processing systems, and in particular our factoring system. We have made significant investments to develop our IT system. However, any serious failure of the factoring system or of our disaster recovery plan or any external IT attacks could interrupt our business or materially affect our activities.

Risks related to technology and cyber-security change rapidly and require continued innovation and investment. Given the rapidly increasing sophistication and scope of potential cyber-attack, it is possible that future attacks may lead to significant breaches in our security. Any of these disruptions, the inability to adequately manage cyber-security risk, or the interception of confidential or proprietary information could give rise to losses in service to our customers and to loss or liability to our Group.

We recently adopted certain new information systems which exposes us to possible risks in connection with such, including possible malfunctioning, poor integration with the existing structure and/or scarce capacity of employees to familiarize with these systems. Specifically, the Group; (i) as from 2013 has been implementing the new information system of general accounting, analytical accounting, purchases and assets, the new management system of treasury and finance, the activation of CSE system to manage banking activity, related regulatory reporting and the integration of them with factoring, general accounting and treasury systems, and (ii) during the year 2015, activated RSI systems for managing the banking activity and instrumental to the operation of the Issuer's Spanish branch. Moreover, the IT infrastructure used by the Magellan Group to carry out its activities is different, and therefore we cannot guarantee the full integration of this system with additional activities and with other systems of the Group.

In providing the services offered and in performing all of the activities related to administrative, financial, accounting and regulatory governance, we use our own information systems as well as those of third parties, that enable integration among the distribution structure, internal operating structures and software applications through which customers access the services offered. One of the main threats to our business consists of operational, strategic and reputational risks that may arise from internal factors such as: (i) the interruption of information systems, which could have a material adverse effect on business activities; (ii) proficiency of staff, as well as the quality of training methods (which could influence the quality of operations and, in parallel, the need to perform controls on them); (iii) potential material errors arising from human error and malfunctioning of information systems; and (iv) potential culpable and/ or malicious actions by the internal personnel or external collaborators and/or external factors such as the unlawful intrusion into information systems, the damaging of the same and theft of data and/or information, the interruption or the malfunctioning of utility services and external connectivity services. Over the past three financial years there have been certain insignificant information system malfunctions which have not caused a material business interruption.

In addition, our ability to remain competitive depends in part on our ability to upgrade our information technology on a timely and cost-effective basis. In the future we may not be able to maintain the level of capital expenditures necessary to support the improvement or upgrading of our information technology infrastructure. If the design of our controls and procedures prove inadequate, or are circumvented, delays in

detection or errors in information may result. Consequently, our reputation could be damaged and our competitive position weakened. We may also be subject to disruptions or breaches of its operating systems, or of the infrastructure that supports it, arising from events that are wholly or partially beyond our control. This includes, but is not limited to, disruptions or breaches caused by terrorist activities, computer viruses, disease pandemics, electrical or telecommunication outages, transportation or other services used by us or third parties with whom we conduct business.

Although our non-recourse factoring and credit management business is provided to legal entities and not natural persons, we cannot exclude the possibility of future developments in the legal framework concerning the collection and storage of data and third party information that may entail limitation or changes to the ways with which we collect, store and process data and information, with particular regard to the collection on the retail market aimed mostly at natural persons, with consequent negative effects on the activities carried out and on our future outlook.

In relation to the newly acquired Magellan Group, a migration process is currently being carried out on their technological infrastructure which is being transferred to ours (this is also for the purpose of aligning Magellan's base hardware and software with the applicable regulatory requirements). This process will be completed by the end of 2017. However, the IT systems of Magellan are not envisaged to be integrated with ours. Therefore it is not possible to guarantee the full integration of our technological infrastructure with that of Magellan in the short term.

Over the past three financial years, we have experienced certain minor information system malfunctions which however did not cause a material business interruption.

The Issuer uses the data contained in the information system also for the purposes of evaluating the receivables to purchase, defining the purchase price of the receivables, evaluating the creditworthiness of the assignor and of the assignee, estimating the payment times and evaluation of the receivable management costs. Therefore, any serious or repeated system failure that results in the loss of information on payment patterns and timing contained in our database or in such information becoming inaccurate or unreliable could compromise our ability to competitively purchase or manage receivables, and may require material investments to address the system failure, which could have a material adverse effect on our business, results of operations and financial condition.

We collect, store and process sensitive personal data of our customers and any failure to properly treat data may lead to reputational damage or legal liability.

The measures and procedures adopted by us and/or the Group companies for the storage and processing of personal data relating to our customers may prove to be inadequate and/or not in compliance with regulatory and legal provisions, and/or not to be implemented properly by Group employees and associates.

In carrying out our activities we collect, store and process the personal data of our customers in conformity with Legislative Decree No. 196 of 30 June 2003 (Personal data protection code) and the rules and regulations in force at any given time. We have adapted our internal procedures and adopted the necessary technical arrangements in order to conform to the requirements of Provision No. 192/2011 issued by the Italian Data Protection Authority containing the regulations regarding access to and the processing of banking data. Customers' personal data is stored at our registered office by the persons designated by the owner of such data and with the necessary capabilities to prevent unauthorized access from the outside or the (total or partial) loss of data and to guarantee the continuity of the service. In addition, we have also adopted internal procedures and measures aimed at regulating access to the data by our personnel and how the data is processed for the purpose of preventing unauthorized access or processing.

Despite the above, we remain potentially exposed to the risk that the procedures implemented and the measures adopted may prove to be inadequate and/or not in compliance with the laws and regulations in force from time to time, and/or may not be promptly or properly implemented by employees and associates (also due to continuous changes in the rules and procedures themselves). Thus, the data could be subject to damage, loss, theft, disclosure or processing for purposes other than those authorized by the customers, or even use by unauthorized parties (whether third parties or employees of companies of the Group). The possible destruction, damage or loss of customer data, unauthorized processing or disclosure, could have a negative

impact on our operations and our reputation and could lead to the Italian Data Protection Authority imposing fines on us.

Furthermore, as our business is subject to the application the Ethics Code of the Authority for the Guaranty of Protection of Personal Data (the "**Guaranty Authority**") (*Autorità Garante per la Protezione dei Dati Personali*) for the protection, collection and processing of personal data. Any eventual changes in such legislation governing the protection, collection and processing of personal data and any amendments thereto, including on an EU level, could force us to bear the costs of adapting to the new legislation.

If any of these circumstances occur, it could have a material adverse effect on our business, including our reputation, and an application of administrative and criminal penalties by the Guaranty Authority, to one or more companies of the Group or their representatives, which could have a material adverse effect on our business, results of operation and financial condition.

Our risk management policies, procedures and methods may leave us exposed to unidentified or unanticipated risks.

Our risk management system, internal controls and human resource department may not be sufficient in order to properly identify, monitor and manage the potential risks that we are exposed to in the course of our business, including credit, counterparty, liquidity, market, interest rate, concentration, operational and IT risks. In addition, risk management on Magellan has been implemented only recently and it is only carried out indirectly by the Issuer without direct oversight.

If the policies and procedures we use to identify monitor and manage risk turn out to be inadequate or not properly implemented, or our assessments and assumptions turn out to be inaccurate, thus exposing us to unforeseen and unquantified risks, we may incur significant losses, which could have a material adverse effect on our business, results of operations and financial condition.

Furthermore, even if our internal procedures for the identification and management of risk are adequate, the occurrence of certain events that cannot be predicted or quantified (in light of the uncertainty and volatility that currently characterizes global markets) may increase such risks, which could have a material adverse effect on our business, results of operations and financial condition.

We are dependent on third-party suppliers and service providers.

We outsource certain important services to third parties. In particular, we have agreements with such third parties in place for the outsourcing of (i) services relating to the development, integration and management of an IT platform for certain back-end activities connected with banking operations (such as the management of the term deposit account "*Conto Facto*" and "*Cuenta Facto*", Bank of Italy and Bank of Spain's notices and a database containing customer and debtor information), and (ii) certain services relating to the opening of term deposit accounts and customer background checks.

Any omission, error, delay or interruption by our suppliers in the provision of their services, could impair their ability to fulfill their contractual obligations. In addition, service level continuity could be disrupted by the occurrence of events having a negative impact on suppliers, such as a filing for bankruptcy or the commencement of insolvency proceedings against them.

Disruptions in our IT services could also affect our reputation, in particular if the software used by customers is affected.

As of the date of this Prospectus, we have not experienced any significant interruption by our suppliers in the provision of their services resulting in the interruption of our business operations (any issues which did occur were resolved within the expected timeframe and were standard issues, considering the nature of the services provided) and our suppliers have generally complied with their contractual obligations. However, given that we depend on these services for the proper functioning of our business, any disruption in these services in the future could have a material adverse effect on our business, results of operations and financial condition.

We may not be able to attract and retain key personnel.

The results and the future success of our business depend on our ability to attract, retain and motivate highly skilled individuals within our management team who have expertise in the business sector in which we operate.

As of 31 December 2016, we had 409 employees (and equivalent personnel) of which 202 employed by the Issuer (of which 9 are active in the branch in Spain), 23 employed by Farmafactoring España and 184 employed by the Magellan Group. The loss of one or more key individuals or our inability to attract and retain further qualified personnel could cause our business to lose its competitive advantage.

In the past three years there has been no notable turnover of our managers, in light of the fact that there are very few key individuals in the sector in which we operate. Therefore, should we have need for additional or new management, we cannot guarantee that we will be able to attract and retain the qualified personnel upon which our business relies. In addition, we invest a considerable amount of time and resources in training our employees to be highly qualified and, as a result, our employees are often sought after by competitors. We may not be able to recruit and retain such personnel at levels consistent with our salary structure since some competitors may be able to offer more favourable working conditions.

Additionally, on 28 November 2013, we entered into an agreement with our Chief Executive Officer, Mr. Massimiliano Belingheri, which governs the terms and conditions of his directorship (the "**CEO Agreement**"), as subsequently modified on 30 June 2015 and on 5 November 2015. Pursuant to the CEO Agreement, if we decide: (i) that Mr. Belingheri should not hold office as Director and Chief Executive Officer until the date of approval of our financial statements for the year ended 31 December 2020 (on the same salary as that currently paid and with the same powers as those currently granted to him, except as a result of any changes requested by public authorities or regulatory changes) or (ii) to dismiss the Chief Executive Officer without just cause or for a "bad leaver" cause as set out in the CEO Agreement (including, *inter alia*, certain offences, or, any act of fraud or gross negligence *vis-à-vis* the Issuer), we would be considered to have terminated his employment, and therefore we would be required to pay a severance payment (the "**Severance**") to the Chief Executive Officer equal to the higher of: (a) 3 times his fixed salary (excluding bonuses, subsidies or other fringe benefits which form part of his current compensation) in the 12 months before the occurrence of the relevant event and (b) €1.6 million. Any further modification or negotiation of the Severance will be conducted in compliance with our standard remuneration policies. If the CEO Agreement is terminated, we will be required to pay the Severance even if the CEO does not resign from the Board. If we are required to pay the Severance, it could have a material adverse effect on our business, results of operations and financial condition. Should Centerbridge Partners Europe LLP, a subsidiary of Centerbridge Partners, cease to hold a controlling interest in our share capital, a change of control clause set out under the CEO Agreement would be triggered, the latter providing that the Severance would be due and the parties would have to negotiate, in good faith, the continuance of the contractual relationship.

In addition, any changes to European banking legislation to which we are subject could impact the compensation of our managers, which might make it more difficult for us to attract and retain qualified management.

Our inability to attract or retain qualified personnel could have a material adverse effect on our business, results of operations and financial condition.

We are involved in disputes, investigations and legal proceedings which could have a material adverse effect on us or on our recovery capability.

In the ordinary course of our business, we are exposed to the risk of being party to legal, civil, administrative and tax proceedings or actions. Although we believe that we have set aside sufficient reserves to cover ongoing proceedings, we cannot predict with certainty the outcome of such proceedings, which may be unfavourable for us, or whether new unexpected proceedings may arise, both of which could have a material adverse effect on our business, results of operations and financial condition. In the year ended 31 December 2016, we made provisions, in application of prudential criteria, for an aggregate amount of €2,075 thousand to cover risks and charges. See "*Description of the Issuer—Legal Proceedings*".

Additionally, two of our Statutory Auditors, Marco Lori and Francesco Tabone, are currently subject to disciplinary proceedings started by CONSOB in April 2016 relating to activities conducted as Statutory Auditors for a financial intermediary different from us. We cannot guarantee that no penalties will be assessed, and if they are, such statutory auditors may be required to resign from their post or face other sanctions, which could have a material adverse effect on our business, results of operations and financial condition. See "*Description of the Issuer—Corporate Governance—Board of Statutory Auditors*".

We are subject to regular inspections by the Bank of Italy and may be required to implement measures set out by the regulators.

During 2015, we were subject to (i) an inspection carried out by the Bank of Italy (Banking and Financial Supervisory Department) pursuant to Articles 54 and 68 of the Consolidated Banking Act, and (ii) the 2015 SREP-Supervisory Review and Evaluation Process conducted by the Bank of Italy.

The Bank of Italy inspection ended with a favourable opinion and no sanctions were imposed on us nor were there findings concerning conformity requirements. In addition, on 28 September 2015, we sent the Bank of Italy a report, approved by our Board of Directors on 10 September 2015, in which all the activities implemented and planned (and subsequently completed) were set forth in order to reflect our efforts to update our processes at the conclusion of the inspection. We gave an additional notice to the Bank of Italy on 11 July 2016 confirming that we implemented all items set forth in our report from 28 September 2015.

The 2015 SREP led to the calculation by the Bank of Italy (a Capital Decision) of the minimum capital requirement levels to be complied with, in light of the capitalization level and capital targets we have set. The reduction of the capital conservation buffer requirements (on which see below) could not be reflected in the final decision of the regulator on our compliance with the relevant capital requirement as part of the 2015 SREP. The limits set out by the 2015 SREP exclusively relate to the consolidation perimeter and as of 31 December 2016 we have been compliant with the limits provided under the regulatory framework. See "*Risk Management—Liquidity Risk—Interest rate risk*".

In 2016 we were subject to the Bank of Italy's SREP in accordance with applicable regulations. As of the date of this Prospectus, we have not received any formal decision by the Bank of Italy with respect to our capital adequacy. Accordingly, we cannot exclude that specific capital requirements – additional to those set out under the CRR – or other measures will be imposed by the Bank of Italy in consideration of the outcomes of the assessment conducted within the 2016 SREP process. In particular, on 4 October 2016 the Bank of Italy amended the Circular No. 285 of 17 December 2013 in order to set the capital conservation buffer applying to Italian banks (on a solo and consolidated basis) – which was equal to 2.5% for banking groups until 31 December 2016 – at (i) 1.25% from 1 January 2017 until 31 December 2017, (ii) 1.875% from 1 January 2018 until 31 December 2018, and (iii) 2.5% starting from 1 January 2019. Pending the completion of the 2016 SREP process, we cannot confirm whether the reduction of the capital conservation buffer requirement may actually entail a reduction of the capital requirements applying to the Bank and the Group, due to the possibility that the Bank or the Group will be required by the Bank of Italy to comply with additional own fund requirements.

Despite being higher than the minimum levels set by the Bank of Italy, the solvency indicators have shown a downward trend connected to the development of our business policies (*i.e.* the increase of risk positions due to business expansion) and the completion of the Magellan acquisition carried out in implementation of our growth strategy. Negative impacts on capital requirements may also arise from the incidence of other factors like the deterioration of credit quality, a decrease of assets, increase in litigation, as well as external factors and unforeseeable events that are out of our control or following further Supervisory Authority requests. We cannot exclude the possibility of future changes concerning the current calculation risks of our assets in relation to the countries in which we operate.

Furthermore, the Bank of Italy, in connection with the authorization of the Magellan Acquisition, recommended the adoption of specific measures aimed, in particular, at ensuring the full direction and coordination of the Polish subsidiary, with the simultaneous reinforcement of the internal controls system and the extension of our policies to Magellan and its subsidiaries. The Bank of Italy also requested the definition of a capital plan - for a minimum basis of three years - that takes into account all of the planned strategic initiatives and describing the capital management initiatives capable of ensuring the current and future

compliance with the supervisory requirements with reference to both the Capital Decision (SREP) and the ECB recommendation issued in connection with the acquisition by the majority shareholder (maintaining, as provided in our business plan and our dividend policy, a level of Total Capital Ratio of 15% prior to carrying out any distributions of dividends as long as the majority shareholder continues to have a controlling stake in our share capital).

The effectiveness of the measures undertaken by us will be the subject of an analysis by the Supervisory Authority at the time of the next SREP. As of this date, it is not possible to evaluate the effectiveness of the initiatives we recently implemented in order to comply with the recommendations of the regulator, and there can be no assurance that such initiatives will be adequate. We cannot exclude the possibility that, following any future evaluations or inspections by the Supervisory Authority, we may have to put into place further measures in order to respond to any imposed requirements. We also cannot exclude the possibility that the measures requested by the Bank of Italy and implemented by us could later reveal themselves to not be fully effective over a period of time.

In addition, between August and December 2016 we were subject to an inspection carried out by the Bank of Italy in relation to loans granted by the Issuer to the Bank of Italy through the ABACO platform. Even if the outcome of the inspection was positive and we did not incur any sanctions, we cannot exclude that, following any future evaluations or inspections by the Supervisory Authority, we may have to put into place further measures in order to respond to any imposed requirements.

Should we be forced to implement new initiatives, or should our initiatives be insufficient to cure any deficiencies, it could have a material adverse effect on our business, results of operations and financial condition. See "*Description of the Issuer—Legal Proceedings—Tax Proceedings*" and "*Description of the Issuer—Legal Proceedings—Bank of Italy Inspections*".

Calculation methods used to estimate the recoverability of the late payment interest may impact our ability to accurately predict our cash flows.

We calculate late payment interest on receivables that we have purchased in accordance with applicable law in Italy (Legislative Decree No. 231/2002, the implementation of Directive 2000/35/EU on combating late payment in commercial transactions) and similar laws in the other countries.

EU IFRS (IAS 18) permits the inclusion of interest in a company's income statement only if it is likely to generate positive cash flows for a company and such projected cash flows can be estimated reliably.

Until 31 December 2013, we did not recognize non-invoiced late payment interest accrued on our portfolio of receivables and we completely wrote-off any invoiced and uncollected late payment interest by creating a provision concerning reduction of assets. Concurrently with actual collection of the late payment interest, the write-off was reversed and these amounts were acknowledged in our income statement, based on the percentage of actual recovery. In 2014, we adopted evaluation tools that allow us to use our historically collected since 2010 data and calculate reliable estimates of the amount of late payment interest that will be collected and the timing for collection. Starting in that year, we have estimated, on the basis of our historical data on collected amounts and timing for collection, the percentage of the amount of late payment interest that will be collected to be equal to 40% of its accrued value at the date of collection (estimated to fall within 1800 days from the maturity date). Starting from 1 January 2017 our management, on the basis of our historical data on collected amounts and timing for collection, and in relation to the portfolio of receivables managed by the Issuer and Farmafactoring España only, has resolved to increase the estimation of the percentage of the amount of late payment interest that will be collected up to 45%.

As of 31 December 2016 (not including Magellan) and 31 December 2015, the late payment interest fund amounted to €547 million and €460 million, respectively, of which €186 million and €151 million were recognized in the income statement as of 31 December 2016 and 2015.

As the method adopted in order to evaluate late payment interest is based on estimates, there is a risk that the percentages of future income from late payment interest actually received by us will not match with those estimated by us.

Moreover, on 9 November 2016 the Bank of Italy, CONSOB and IVASS issued a document concerning the methods of estimation to be used in order to calculate late payment interest. Although we consider ourselves to be in line with these provisions, we cannot exclude that the competent supervisory authorities may detect criticalities in the future concerning the estimation process.

Furthermore, there is also a risk that in the future, when updating our historical data, we may need to adjust receivables recorded in previous years as well as estimates of our predicted cash flows, recalculate the value of the late payment interest fund and record the effects of these changes in our income statement. A misalignment between our estimates and our actual results could have a material adverse effect on our business, results of operations and financial condition.

We have significant outstanding indebtedness, some of which contain restrictive debt covenants, which limits our operating flexibility.

Our business (including the Traditional Activities and activities carried out by Magellan, excluding Credit Collection Management only) relies heavily on our access to funding resources consistent with the quality and cost criteria established by our business plan. As of 31 December, 2016, our Group (excluding Magellan) had outstanding *indebtedness* of €2.113 million, of which bank and third-party loans of €822 million related to on line deposits, utilized loans and credit limits including overdraft facilities in the total amount of €756 million, securitizations of €85 million and bonds of €450 million.

As of 31 December 2016, Magellan had outstanding indebtedness of €183 million, of which utilized loans and credit limits including overdraft facilities in the total amount of €88 million and bonds of €95 million. For more information with respect to Magellan's indebtedness, see "*Description of the Issuer—Funding—Magellan Bond Programs*" and "*Description of the Issuer—Funding—Magellan Loans*".

Risks related to our Existing Notes

On 12 June 2014, we issued €300 million in aggregate principal amount of 2.75% Notes due 2017 (the "**2017 Notes**") and on 21 June 2016, we issued €150 million in aggregate principal amount of 1.25% Notes due 2021 (collectively, the "**2021 Notes**").

The terms and conditions of the 2017 Notes and the 2021 Notes (collectively, the "**Terms and Conditions of the Existing Notes**"), which are governed by English law, impose certain obligations on us (including negative pledges in respect of us and our "Material Subsidiaries", as defined therein) and, in accordance with market practice for similar transactions, provide for events of default. Such events of default include, *inter alia*: (i) the cross-default of us or any of our subsidiaries (as defined under Article 2359 of the Civil Code) involving amounts above a certain threshold; (ii) judgments or orders for the payment of any amount above a certain threshold; and (iii) cessation of business by us or any of its subsidiaries otherwise than for the purposes of a "Permitted Reorganization".

As of the date of this Prospectus, Magellan has issued bonds under a PLN 750 million (approximately €170 million) bond programme arranged and placed by mBank S.A., of which PLN 292.0 million and €29.1 million (approximately €95.3 million in total) is currently outstanding. The terms and conditions of the bonds are governed by Polish law and, in accordance with market practice for similar transactions, provide for events of default. Such events of default include, *inter alia*: (i) a cross-default in respect of financial indebtedness for an amount exceeding a certain threshold if the interest and principal in respect of such indebtedness is not paid when due or is declared due and payable before the original maturity date, (ii) delivery of judgments or orders for the payment of any amount above a certain threshold, (iii) cessation of business, and (iv) change of control over Magellan. In connection with a waiver process completed during October 2016, the noteholders of the bonds issued by Magellan have requested that the bonds be listed on the alternative trading system ("*Catalyst*"), operated by the Warsaw Stock Exchange, within a period of time ranging from 2 March 2017 to 7 March 2017. As of the date of this Prospectus, Magellan has filed the relevant motions to admit the bonds to trading and has already obtained the listing of the majority of the series of the bonds. As of the date of this Prospectus, in relation to the series of bonds for which the authorization for listing is still to be obtained, it is expected that the listing process will be fully completed by the relevant terms falling between 2 March 2017 and 7 March 2017. See "*Description of the Issuer—Funding—Magellan Bond Programs*".

As of the date of this Prospectus we are in compliance with the Terms and Conditions of the Existing Notes; however, should an event of default occur in the future, the Notes could become immediately due and payable at their principal amount together with accrued interest.

Risks related to our Loan Agreements

We have also entered into certain loan agreements with national and international financial institutions (the "**Loan Agreements**"). The majority of our Loan Agreements provide for revolving short-term credit lines of a principal amount not exceeding €100,000,000 (per counterparty and limited to unsecured credit lines) to be made available to us for the purposes of managing our cash requirements and, more generally, meeting our financial needs in the ordinary course of business.

The Loan Agreements, in accordance with market practice for similar transactions, include, *inter alia*, the following clauses: (i) information undertakings, (ii) events of default, (iii) negative pledges, (iv) restrictions in carrying out certain types of transactions, (v) financial covenants, and (vi) restrictions in disposing of our assets and the obligation to reinvest the proceeds from such disposals in our core business activities or, if this is not done within a certain deadline, to use the proceeds for the early repayment of the loan.

The information obligations under the Loan Agreements, include *inter alia*: (i) providing copies of its standalone and consolidated financial statements and half-year reports; (ii) providing copies of the agenda and minutes of extraordinary shareholders' meetings; and (iii) disclosing the outcome of certain types of extraordinary transactions and transactions involving the transfer or divestment of assets, in each case according to the timing and procedures set out therein.

In addition, some of the Loan Agreements impose on the Issuer and the Group certain financial covenants relating to, *inter alia*: (a) the levels of profit for the year; (b) the ratio of (i) bad debts reflected in our financial statements and (ii) non-recourse receivables purchased outright and (ii) the value of non-recourse factoring on a permanent basis; (c) the ratio of (i) funds held/regulatory capital recorded in the financial statements and (ii) non-recourse receivables purchased outright calculated on the basis of various factors set out in the laws and regulations of the applicable jurisdiction; and (d) the maintenance of certain CET 1 ratio levels and/or Total Capital Ratio.

As of the date of this Prospectus we are in compliance with the Loan Agreements; however, if an event of default were to occur in the future or if we were to breach any obligation, including any financial covenant, thereunder and fail to remedy such event of default or breach during the relevant grace period, the lenders would be entitled to demand immediate repayment of the loan. The events of default under the Loan Agreements include, *inter alia*, cross-default and cross-acceleration of our (and, in some cases, also of its subsidiaries) involving amounts above a certain threshold.

Our ability to repay outstanding amounts or to comply with the terms and conditions of the Notes is linked to the timing for collection of the non-recourse receivables purchased as well as to our ability to raise sufficient liquidity to make payments to our lenders and noteholders, respectively, as they become due. There is a risk that on the repayment dates of the Notes and/or the Loan Agreements, or should the lenders and/or noteholders demand immediate repayment/redemption of the outstanding amounts, we may not have sufficient funds to make such payments. In addition, if we need to refinance our debt, we may be required to accept less favorable contractual conditions and interest rates as compared to our existing financing, which could have a material adverse effect on our business, results of operations and financial condition.

Our outstanding level of debt will have important consequences for us including the following: (i) continued requirement for us to satisfy our debt or contractual obligations; (ii) exposing us to the risk of increased interest rates as certain of our loans have variable rates of interest; (iii) requiring us to dedicate a portion of our cash flow to repay commitments / payment referred to the Magellan Loan Agreements, which would reduce the funds available for working capital, capital expenditures, investments, acquisitions and other general corporate purposes; (iv) limiting our flexibility in planning for, or reacting to, changes in our business, future business opportunities and the industry in which we operate; (v) placing us at a competitive disadvantage compared to any of our less leveraged competitors; (vi) increasing our vulnerability to a downturn in our business and both general and industry-specific adverse economic conditions; and (vii)

limiting our ability to obtain additional financing at a favorable cost of borrowing, or if at all, to fund future working capital, capital expenditures, investments, acquisitions or other general corporate requirements.

In addition, the credit agreements of the Group contain covenants that require us to comply with, among other things, a maximum leverage ratio, a minimum interest coverage ratio and that restrict our ability to finance future operations or capital needs, to respond to changing business and economic conditions or to engage in other transactions or business activities that may be important to our growth strategy or otherwise important to us. Any breach of the covenants in the credit agreements could result in a default of the obligations under such debt incurrence and cause a default under its conditions which could have a material adverse effect on our business, results of operations and financial condition. Despite our current level of indebtedness and the restrictive covenants, we cannot exclude incurring additional indebtedness in the future, in order to finance, *inter alia*, our operations or capital needs, which would intensify our leverage risks. Moreover, our credit agreements contain events of default that are customary for such financing, which are subject to materiality qualifications and exceptions, baskets and grace periods, as appropriate, and include among others: (i) failure to pay any amount of principal or interest in respect of the credits when due, (ii) default in the performance or observance of any obligation under the credit agreements, (iii) cross default, (iv) unsatisfied judgment for the amounts specified in the credit agreements, (v) enforcement, (vi) insolvency, (vii) cessation or change of business, (viii) winding up; (ix) failure to take action in order to perform our obligations under the credit agreements and (x) unlawfulness.

We may face ongoing liability under our securitization arrangement.

As of 31 December 2016, we have a single securitization operation outstanding with the Deutsche Bank Group. Originally entered into in October 2012 renewed in July 2014 and again in August 2016, the operation consists of the non-recourse sale of receivables due from the *Azienda Sanitaria Locale* ("**ASLs**", the Italian local health authorities) and *Aziende Ospedaliere* ("**AOs**", the Italian public hospital trusts), with the aim of diversifying our funding activities.

The table below summarizes the main information regarding the securitization operations with the Deutsche Bank Group as of 31 December 2016 and 2015.

Bank	Vehicle	Start date	Maturity	Revolving period(*)	Nominal Outstanding at 31 December	
					2016	2015
Deutsche Bank Group	Farmafactoring SPV I S.r.l.	October 2012(a)	July 2017(c)	9 months	140.3	250.5

(*) Revolving period from last renegotiation.

(a) Operation renewed early in July 2014 with initial maturity in October 2014, later renegotiated in 2015 and renewed in August 2016 with a new revolving period in place until 31 July 2017.

In our capacity as originator, sub-servicer and subordinated loan provider, we maintain involvement in the securitization activity, even if we definitively sell the loans. At the end of the operation, following the repayment of the securities and other senior expenses of the operation, all residual amounts from the collection of the loans sold, including any late-payment interest, will be due to us as the subscriber of the subordinated loan. As a result of this condition, together with the right of the company to repurchase and/or replace the loans at any time, all risks and benefits of the operation have not been transferred to the assignee, therefore we remain exposed to credit risk. As of 31 December 2016, we have not subscribed asset-backed securities in relation to the operation in question. Should any of the credit risk materialize, we may face liability which could have a material adverse effect on our business, results of operations and financial condition.

No credit rating has been assigned to us, which could hinder our ability to access funding.

As of the date of this Prospectus, no credit rating has been assigned to us by independent rating agencies. In the absence of a credit rating, investors will not possess such information for the assessment of our degree of solvency and risk level.

Although an issuer's ability to fulfil its obligations, arising from the issuance of debt instruments and money-market instruments, is evaluated through the credit ratings assigned by independent rating agencies, an assigned rating may not reflect the potential impacts of all risks related to the structure, market and additional risk factors to which we make reference. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgement, circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of assigned credit ratings may adversely affect the cost and terms and conditions of our financing.

Although as of the date of this Prospectus the absence of a credit rating in respect of the Issuer has not been an obstacle to obtaining the financial resources we need to operate our business, we cannot rule out that in the future this could hinder our ability to access funding. Should we fail to be able to access adequate funding, this could have a material adverse effect on our business, results of operations and financial condition.

We have significant related party transactions with our affiliates

We maintain relationships of a commercial and financial nature with companies belonging to the Group, subsidiaries, holding companies and other related-parties identified on the basis of the criteria defined by international accounting standard IAS 24.

The primary purpose of the main existing relations between our Group and related-parties is: (i) providing services relating to support in the preparation and sending of supervisory reports; (ii) transactions under the scope of "*Conto Facto*" term deposit account relations subscribed by Group Directors on the same conditions offered to the public; (iii) compensation and remuneration paid by us to Directors and Senior Managers with strategic responsibilities; and (iv) loans to subsidiaries.

We also engage in: (i) securitization transactions, (ii) transactions involving royalties relating to the use of IT rights and related services, (iii) and, to a minor extent, in guarantees with other companies of the Group.

We believe these relations were established under market terms and conditions. However, there is no guarantee that where these operations were concluded between or with, non-related parties, they would have negotiated and agreed the contracts, or carried out the operations governed by the same, under the same conditions and the same methods. Related-party transactions are heavily regulated. Should we be found to be in violation of any such regulations, it could have a material adverse effect on our business, results of operations and financial condition. See also "*—Changes in tax laws or the tax rate to which we are subject could materially impact our financial position*".

Risks Related to Our Industry

Our business is dependent on certain customary inefficiencies and payment delays in the national health systems in the countries in which we operate.

Our non-recourse factoring and credit management businesses depend on the occurrence of significant delays in payment and administrative difficulties (with respect to both debtors and customers) in the national health system and public administration of the countries in which we do business.

We do not expect the governments of countries in which we operate (Italy, Spain, Portugal, Poland and, to a lesser extent, Slovakia and Czech Republic) to adopt measures capable of eliminating entirely the structural inefficiencies in the public sector of their respective countries. However, we cannot rule out the possibility that such measures could be successfully adopted in the future or that the public sector (the national health system and public administration in particular) of the countries in which we operate could obtain sufficient funds and implement adequate procedures to materially reduce delays in payments to suppliers. Furthermore, the implementation of such measures may also be accelerated as a consequence of the initiatives that the European Commission has commenced towards those member States that have traditionally longer delays in the payment process. In particular, the European Commission has warned Italy, Spain, Greece and Slovakia with respect to this specific matter and it cannot be excluded that may commence an infringement procedure if those member States do not adopt specific measures to improve the payment terms.

A significant reduction in delays in public sector payments in the countries in which we operate could have a material adverse effect on our business, results of operations and financial condition.

The Italian government may request the European Commission to allow it to grant "state aid" in order to combat the impact of the financial crisis

Since the start of the financial crisis in 2007, the attention of the European Union has focused on the need for a European single rulebook on the resolution of banking crises. With effect from 1 August 2013, the European Commission issued a new communication regarding state aid to credit institutions. State aid must be compatible with the law of the European Union (according to Article 107, paragraph 3, letter b), of the Treaty on the Functioning of the European Union).

The granting of any such aid, where the prerequisites are satisfied, may be conditional on a prior "burden sharing", both by shareholders and by some of those who have subscribed subordinated debt or hybrid capital securities, with a parallel curtailment of the rights of such parties, to the extent to which it is legally possible. Moreover, it is not possible to rule out that, as the regulatory framework for state aid is constantly evolving, there could be further restrictions to the rights of shareholders and bond holders during the lifetime of the respective securities, which could have a material adverse effect on our business, results of operations and financial condition.

Our business is dependent on continued government spending on national health and other segments of the public administration.

We operate in the market of expenditure in goods and services for which the governments of Italy, Spain, Portugal, Poland, Czech Republic and Slovakia allocate funds to their public bodies, in particular the national health system and other segments of the public administration.

We are exposed to the risk that such governments, following a deterioration of the macroeconomic situation or the introduction of more stringent restrictions on public funding, may significantly reduce the funds allocated for expenditure in goods and services to the national health system and the public administration, which could result in a reduction of the volumes of receivables generated in the sector in which we operate and have a material adverse effect on our business, results of operations and financial condition.

The introduction of the so-called "split payment" of VAT for transactions involving public bodies could be extended and could impact the way we operate our business.

Law No. 190 of 23 December 2014 (the "**2015 Budget Law**") introduced changes to the VAT regime applicable to transactions carried out by public entities, including debtors within the Italian national healthcare system and the public administration, referred to as the split payment mechanism ("**Split Payment Mechanism**"). Pursuant to such mechanism, VAT on certain sales of goods and provisions of services rendered to public entities by suppliers will be paid by public entities and not by suppliers, as required under the previously applicable legislation. Therefore, payment of VAT will be made to the tax authority directly by the public entities, while payment of the taxable amount will be made to suppliers.

The Split Payment Mechanism was authorized by the Council of the European Union effective from 1 January 2015 and will be applicable until 31 December 2017. By that date, adequate controls should have been developed based on the data acquired through electronic invoicing. We cannot exclude that application of the Split Payment Mechanism will be extended by the Council of the European Union for a further period after 31 December 2017. In this respect, the Italian government has recently applied for the extension of said measure to 2020. Any extension of the application of Split Payment Mechanism could have a material adverse effect on our business, results of operations and financial condition.

Changes in tax laws or the tax rate to which we are subject could materially impact our financial position.

We are currently subject to taxation in various European countries (Italy, Spain Poland, Slovakia and the Czech Republic). Any future changes in tax rates as applied to us could be affected by the proportion of profits earned in countries having different tax rates, changes in the calculation of deferred taxes or changes to tax law and its interpretation.

From 2013, we have benefited from a favourable tax regime introduced by Decree Law No. 201 of 6 December 2011, converted into law, following amendments, by Law No. 214 of 22 December 2011 (the so-called "*Aiuto alla crescita economica*" ("**ACE**")), which introduced a tax reduction for highly capitalized businesses. In particular, the favourable tax regime is based on the deduction of an amount corresponding to the notional return on its new capital from the total net income declared. Although this regime has resulted, and for the 2016 tax year will also result, in a significant tax saving for us, on the basis of a Decree of the Ministry of Economics and Finance, there has been a decrease in the percentage rate for the tax period starting from 1 January 2017 at 2.3%, which could increase our tax rate and therefore have an adverse effect on our business, results of operations and financial condition.

In addition, the Magellan Group experienced in the past certain interpretative issues in relation to the application of some provisions of tax laws in Poland, Czech Republic and Slovakia. In those circumstances the Magellan Group sought the prior opinion of the competent tax authorities and followed the interpretation suggested by them. However, we cannot exclude that the tax authorities might adopt a different interpretation in the future and this could have a material adverse effect on our business, results of operations and financial condition.

Furthermore, we conduct transactions between related parties residing in different countries in the ordinary course of business. These transactions (such as funding and the provision of services) are subject to transfer pricing rules established by the Organization for Economic Cooperation and Development ("**OECD**") and any applicable national laws. Given the complexity of such rules, there is a certain degree of uncertainty with regard to their interpretation and application.

In relation to transfer pricing (and concerning the tax years from 2008 to 2012), the Italian tax authority has contested the actions of FF Holding S.p.A., which had a controlling stake in the Issuer in such year and with which we subsequently merged by way of incorporation in 2013. FF Holding, although it did not agree with the tax authority's position, for the purpose of avoiding a lengthy and costly trial (as well as to eliminate the risks which the management of the relative disputes would entail and in the context of the aforementioned merger transaction envisaged at the time) decided to fully settle the issue. The settlement costs were registered in our 2013 profit and loss statement and in 2013 we proceeded to settle the remaining issues in accordance with the results of the settlement agreement reached between FF Holding S.p.A. and the tax authorities.

Although we believe that we are currently in compliance with the applicable transfer pricing rules, there is a risk that the methods we adopt may be contested by the relevant competent authorities, which could result in tax inquiries and investigations against us. Tax inquiries and investigations may result in fines or higher tax liabilities, which could have a material adverse effect on our business, results of operations and financial condition.

We are subject to regulations which require us to avoid significant debtor concentration.

Pursuant to the rules imposing limits on the assumption of risk by banks, which are set out in the "**Supervisory Provisions for Banks**" (*Disposizioni di Vigilanza per le Banche*) issued by the Bank of Italy (Circular No. 285 of 17 December 2013, as subsequently amended), banks are required to limit their exposure, with respect to any individual debtor, to 25% of their eligible capital. The failure to comply with this requirement following the occurrence of events out of our control (for example, future mergers between our debtors) and any risk connected with the consolidation of local health authorities that has been taking place in certain regions of Italy in recent years and that will occur in other regions as well in the near future could have a material adverse effect on our business, results of operations and financial condition. Furthermore, compliance with the 25% exposure limits with respect to individual debtors described above could restrict our growth in terms of asset volumes and could cause a potential breakdown of our relationship with customers if, for example, in order to comply with such limits, we were forced to turn down business from one or more customers, which could have a material adverse effect on our business, results of operations and financial condition.

We may not be able to accurately predict future fluctuations in interest rates.

Interest from our non-recourse factoring business and in general from the Group's financing activity, depends on our ability to correctly identify and assess the fixed commission earned to customers for the purchase of

receivables based on expected payment time, taking into account our expected funding cost over that period. A fluctuation in interest rates may cause our costs estimates (which are priced in a fixed commission at the time of purchase of the receivable) to no longer be sufficient to cover the funding costs of our non-recourse factoring business or reduce our expected margins. We have developed procedures to allow us to make assessments concerning the purchase of receivables. However, no assurance can be given that such assessments will accurately reflect the potential variation of interest rates. Default interest is limited to the ECB refinancing rate and an increase in the ECB rate will therefore increase the rate payable on late payment of interest.

In the course of our business, we used to enter into interest rate swap contracts with major financial institutions in order to prevent the risk of fluctuation in interest rates. For example, on 1 July 2016 we entered into a swap agreement connected to the loan agreement granted to the Issuer in order to finance the acquisition of Magellan.

In addition, as is the case in other countries, Polish statutory interest rates are set by applicable regulations enacted by the Minister of Justice and, therefore, a portion of Magellan's interest income depends on factors beyond its control. For instance, in December 2014, the statutory interest rate decreased from 13% to 8%, with an adverse impact on Magellan's income. The statutory interest rate (*odsetki ustawowe*) in Poland subsequently decreased in January 2016, and as of the date of this Prospectus, it is equal to 5.0%. As of the date of this Prospectus, the late payment interest rate is equal to 7.0% and the late payment interest rate in commercial transactions (*odsetki ustawowe za opóźnienie w transakcjach handlowych*) determined by the Polish Minister of the Economy is equal to 9.5%, in accordance with the European directive on late payment interest. Since statutory and late payment interest rates in Poland frequently change, no assurance can be given that further adverse changes in the interest rates will not occur, which could have a material adverse effect on our business, results of operations and financial condition.

A significant portion of our funding is at fixed rate, notably term deposits and bonds issued by the Issuer, and in the course of the years 2015 and 2016 it has covered part of the interest rate risk, especially for periods of over six months.

From a macroeconomic point of view, in the last years, the interest rate levels have been particularly low due to the expansionary monetary policies of the ECB and the Federal Reserve in order to foster the economy. These circumstances together with the high liquidity of the market contributed to a strong reduction of the Euribor rates. The refinancing rate determined by the ECB has an impact on the Issuer's activity, in particular with regard to funding policies and the raising of financial resources on the interbank market, as well as the pricing of the purchased receivables. An overall increase of the interest rates would negatively affect the Group's activity with regards to the refinancing transactions and the profitability of the Group.

The capital absorption relating to interest rate risk as of 31 December 2016 and 2015, calculated on the basis of an estimate of the market shock, was equal to €9,258 thousand and €15,125 thousand, respectively. The capital absorption relating to market risk as of 31 December 2016 and 2015 was equal to €0 and €0 thousand.

The Group's policy aimed at controlling the fluctuation of interest rates, approved by the Board of Directors on December 2013, allowed the reduction of the abovementioned capital absorption to zero. In particular, in order to check in advance that the new derivatives on rate do not expose the Issuer to interest rate risk, it was expected that, during the purchase of financial derivatives on rates, hedging purposes, as well as a management value, also allow to comply with the stricter accounting requirements for the hedge accounting implementation provided by the International Financial Reporting Standards, this is a necessary condition for the non-inclusion of the new derivatives in the trading book. Furthermore, given the absence of trading operations in relation to derivative instruments of our portfolio, no additional monitoring tools will be used other than those which are used for the ordinary management. Therefore, we have not considered convenient the development of internal models, such as the "Value at Risk" model, which is useful to perform an evaluation of market risks, not just from the capital requirements perspective, but also from a management perspective by measuring the different levels of sensitivity of the relevant parameters in relation to market factors.

The main funding sources of the Magellan Group consist in the bonds, bank loans and funding from the Issuer. The funding sources (excluding short-term discount bonds and medium-term euro-denominated bonds)

are on floating rate with reference to the Polish market rate ("**WIBOR**"). The Magellan Group's assets pay interest based on fixed and floating rates. Therefore, there is a risk of a mismatch. As part of the policies of our Group, also the Magellan Group manages the risk through monitoring of the structure of the portfolio including financial assets and financial liabilities, as well as using interest rate swaps (IRS) instruments.

At the end of the reporting period, the instruments put into place by the Magellan Group are measured at the fair value which would have been in place had the transaction been settled as of that date. Gains or losses on the restatement of the fair value of a contract are recognized in the statement of comprehensive income as "Portfolio financing costs".

Fluctuations in interest rates outside of the parameters provided for in our hedging strategies could have a material adverse effect on our business, results of operations and financial condition.

We operate in a highly competitive market and may not be able to maintain or increase our current market share.

Our competitors may penetrate or consolidate their position in markets in which we operate, attracting our customers and depriving us of a significant market share by offering more innovative or more aggressively priced products and services.

In the banking sector, our competitors include, *inter alia*, banks and banking groups of various size ranges which operate in Italy, Spain and other financial institutions that offer term deposit account services. In this regard, the banking sector in Italy and Spain are characterized by a high level of competitiveness, due to, *inter alia*: (i) adoption of EU directives intended to liberalize the EU banking sector; (ii) modification of the rules on taxation and banking; and (iii) developments in services that have a strong technological innovation component, such as internet banking, phone banking and mobile banking.

In light of the current process of product and service diversification carried out by many Italian banks, we cannot exclude the certain banks may extend the services they offer to the specific market area in which we operate. This context, combined with the features of non-binding contracts on a long-term basis, may constitute a risk in relation to the maintenance of our market shares and the realizable profit margins, with a consequent negative impact on our expectations and on our financial, economic and capital situation, as well as on the Group's results.

Furthermore, this competitive pressure could increase as a result of regulatory intervention, the behavior of competitors, consumer demand, technological change, possible aggregation processes involving financial groups, the entry of new competitors and the contribution of other factors not necessarily under our control.

In the event that we are unable to respond to increasing competitive pressure by, *inter alia*, offering innovative products and services capable of satisfying the demands of customers, we could lose market share in several business sectors and, therefore, related masses and revenues. For example, in last three years, we have recorded a decrease in commission income from our Credit Collection Management services following the increased competition on the market. As of 31 December 2016, we recorded a decrease in commission income of 6.6% compared to 31 December 2015.

As a result of such competitive pressures, we may not be able to maintain or increase our level of activity and profitability in line with past results, which could have a material adverse effect on our business, results of operations and financial condition.

Risk relating to the Notes

The Notes are subordinated obligations

The Issuer's obligations to make payments under the Notes are subordinated. In particular, the payment obligations of the Issuer under the Notes rank:

(i) subordinated and junior to the Issuer Senior Creditors (as defined under Condition 1(a) ("*Definitions and Interpretation*"));

(ii) *pari passu* with the Issuer Parity Creditors (as defined under Condition 1(a) ("*Definitions and Interpretation*")); and

(iii) senior to any other present or future obligation of the Issuer which constitutes or is eligible to constitute Tier 1 capital or which otherwise ranks, or is expressed to rank, by or under its own terms or otherwise, subordinate or junior to the Notes.

By virtue of this subordination, if the Issuer is declared insolvent and a winding up is initiated, or in the event that the Issuer becomes subject to an order for *Liquidazione Coatta Amministrativa*, as defined in Italian Legislative Decree no. 385 of 1 September 1993, as amended, it will be required to pay the holders of senior debt and meet its obligations to all its other creditors (including unsecured creditors) in full before it can make any payments on the Notes. If this occurs, the Issuer may not have enough assets remaining after these payments to pay amounts due under such Notes.

For a full description of the provisions relating to the Notes, see the "*Terms and Conditions of the Notes*". In addition, each Noteholder and Couponholder will, by virtue of its subscription, purchase or holding of any Note or Coupon, be deemed to have waived all rights of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Notes or Coupons. See Condition 3(b) ("*Set-Off*").

Regulatory classification of the Notes

The intention of the Issuer is for the Notes to qualify as "Tier 2 Instruments" and to be included in the "Tier 2 Capital" of the Issuer for regulatory capital purposes. In accordance with the framework set out under the CRR, current regulatory practice by the Bank of Italy does not require (or customarily provide) a confirmation prior to the issuance of the Notes that the Notes will be treated as such.

Although it is the Issuer's expectation that the Notes qualify as "Tier 2 Instruments", there can be no representation that this is or will remain the case during the life of the Notes or that the Notes will be grandfathered under the implementation of future EU capital requirement regulations. If the Notes are not grandfathered, or for any other reason cease to qualify, as "Tier 2 Instruments", the Issuer will have the right to redeem the Notes in accordance with Condition 6(c) (*Redemption upon the occurrence of a Regulatory Event (Regulatory Call)*), subject to the prior approval of the Relevant Authority. There can be no assurance that holders of such Notes will be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investments in the relevant Notes, as the case may be.

The Notes are fixed rate securities and are vulnerable to fluctuations in market interest rates

The Notes will carry fixed interest. A holder of a security with a fixed interest rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital markets (the "**Market Interest Rate**"). While the nominal interest rate of a security with a fixed interest rate is fixed during the life of such security or during a certain period of time, the Market Interest Rate typically changes on a daily basis. As the Market Interest Rate changes, the price of such security moves in the opposite direction. If the Market Interest Rate increases, the price of such security typically falls, until the yield of such security is approximately equal to the Market Interest Rate. Conversely, if the Market Interest Rate falls, the price of a security with a fixed interest rate typically increases, until its yield is approximately equal to the Market Interest Rate. Investors should be aware that movements of the Market Interest Rate could adversely affect the market price of the Notes.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in the light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The interest rate on the Notes will reset on the Reset Date, which is expected to affect the interest payable on the Notes and could affect the market value of the Notes

The Notes bear interest at the Initial Rate of Interest from (and including) the Issue Date to (but excluding) the Reset Date. On the Reset Date, the interest rate will be reset to the sum of the 5 Year Mid-Swap Rate prevailing on the Optional Redemption Date (Call) and the margin of 6.164 per cent. The Reset Rate of Interest could be less than the Initial Rate of Interest which could affect the market value of an investment in the Notes.

Early redemption of the Notes

If the Issuer calls and redeems the Notes in the circumstances described in, and in accordance with, Condition 6(b) (*Redemption for tax reasons*) or following a change of the regulatory classification of the Notes in the circumstances described in, and in accordance with Condition 6(c) (*Redemption upon the occurrence of a Regulatory Event (Regulatory Call)*) or in accordance with Condition 6(d) (*Redemption at the option of the Issuer*), the Noteholders may not be able to reinvest the redemption proceeds in comparable securities offering a yield as high as that of the Notes.

Under CRR, the early redemption of the Notes in the circumstances mentioned above is subject to the prior written approval of the Relevant Authority and in accordance with applicable laws and regulations, including Articles 77(b) and 78 of the CRR. The Relevant Authority would approve an early redemption of the Notes if the conditions provided for by the applicable laws and regulations, including Articles 77(b) and 78 of the CRR, are met.

For a full description of the provisions relating to early redemption of the Notes, see Condition 6(a) (*Scheduled Redemption*), Condition 6(b) (*Redemption for tax reasons*), Condition 6(c) (*Redemption upon the occurrence of a Regulatory Event (Regulatory Call)*), Condition 6(d) (*Redemption at the option of the Issuer*), Condition 6(e) (*No other redemption*) and Condition 6(h) (*Regulatory conditions for call, redemption, repayment or repurchase of the Notes*).

Investors must rely on the procedures of the clearing systems

The Notes will be deposited with a common safekeeper for Euroclear and Clearstream (the "**ICSDs**"). Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive Definitive Notes. While the Notes are represented by one or more Global Notes, the ICSDs will maintain records of the beneficial interests in the Global Notes and investors will be able to trade their beneficial interests only through the ICSDs. Similarly, the Issuer will discharge its payment obligations under the Notes by making payments to the ICSDs for distribution to their accountholders and has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes. A holder of a

beneficial interest in a Global Note must therefore rely on the procedures of the ICSDs to receive payments under the relevant Notes.

In addition, holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the ICSDs to appoint appropriate proxies.

The Notes are unsecured

The Notes constitute unsecured obligations of the Issuer and, save as provided in Condition 4 (*Negative Pledge*), do not contain any restriction on the giving of security by the Issuer and its Subsidiaries over present and future indebtedness. All secured indebtedness of the Issuer, present or future, will be senior to the Notes to the extent of the value of the assets that secure such indebtedness. Accordingly, in the event of any insolvency or winding-up of the Issuer, the proceeds from the sale of the assets securing the Issuer's secured indebtedness will be available to pay obligations on the Notes only after all secured indebtedness has been paid in full.

The Bank Recovery and Resolution Directive may affect Notes

As described in "*-Factors that may affect the Issuer's ability to fulfil its obligations under the Notes – Extensive regulation in the banking sector may adversely affect our business*" above, the BRRD gives wide powers to governmental authorities aimed at addressing banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses. These include the so-called "bail-in tool", by which resolution authorities would have the power to write down the claims relating to the liabilities of a failing institution that are eligible for bail-in (including the claims of the holders of the Notes) and/or to convert such liabilities into equity.

The BRRD has required Member States to modify their national insolvency regimes so that deposits of natural persons and micro, small and medium-sized enterprises in excess of the coverage level contemplated by deposit guarantee schemes created pursuant to Directive 2014/49/EU have a ranking in normal insolvency proceedings which is higher than the ranking which applies to claims of ordinary, unsecured, non-preferred creditors, as well as unsecured, subordinated creditors, such as holders of the Notes. Furthermore, the BRRD does not prevent Member States, including Italy, from amending national insolvency regimes to provide other types of creditors, such as holders of corporate deposits or other operating liabilities of the Issuer with rankings in insolvency higher than ordinary, unsecured, non-preferred creditors, as well as unsecured, subordinated creditors, such as holders of the Notes.

As a result, considering also the subordinated nature of the claims of the holders of the Notes, significant amounts of liabilities are ranked higher than the Notes in normal insolvency proceedings and, on application of the general bail-in tool, such creditors will be written-down or converted into equity after the Notes, meaning that holders of the Notes will therefore be subject to greater losses than the claims of such other creditors. Furthermore, the right of holders of the Notes have only very limited rights to challenge and/or seek a suspension of any decision by resolution authorities or to have it reviewed by a judicial or administrative process or otherwise.

The measures set out in the BRRD, including the bail-in tool, have already been implemented in Italy, taking effect from 1 January 2016. The powers set out in the BRRD will have a significant impact on how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. As a result, holders of the Notes may be subject to write-down or conversion into equity on any application of the general bail-in tool, which may result in their losing some or all of their investment. In addition, the BRRD contemplates that the Notes may be subject to non-viability loss absorption, in addition to the application of the general bail-in tool. The exercise of any power under the BRRD or any suggestion of such exercise could, therefore, have a material adverse effect on the rights of Noteholders, the price or value of their investment in any Notes and/or the ability of the Issuer to satisfy its obligations under any Notes.

For a description of the loss absorption requirement, see Condition 3(c) (*Loss Absorption*).

Minimum denomination of the Notes

The Notes will be issued in denominations of €100,000 or higher integral multiples of €1,000, up to and including a maximum denomination of €199,000. Although Notes cannot be traded in amounts of less than their minimum denomination of €100,000, they may nonetheless be traded in amounts that will result in a Noteholder holding a principal amount of less than €100,000. Any such principal amount would not be tradeable while the Notes are in the form of a Global Note and, if definitive Notes were issued, such Noteholder would not receive a definitive Note in respect of its holding and, consequently, would need to purchase a principal amount of Notes so as to increase such holding to at least €100,000. If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of €100,000 may be illiquid and difficult to trade.

Payments under the Notes may be made subject to withholding or deduction of tax

All payments in respect of Notes will be made free and clear of withholding or deduction of Italian taxation, unless the withholding or deduction is required by law. In that event, the Issuer will pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding or deduction been required. The Issuer's obligation to gross up is, however, subject to a number of exceptions, including in particular withholding or deduction of Italian substitute tax (*imposta sostitutiva*), pursuant to Italian Legislative Decree No. 239 of 1 April 1996.

Prospective purchasers of Notes should consult their tax advisers as to the overall tax consequences of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes, including in particular the effect of any state, regional or local tax laws of any country or territory. See also the section of this Prospectus entitled "*Taxation*".

FATCA may affect payments made in respect of the Notes

With respect to Notes issued after the date that is six months after the date on which final U.S. Treasury regulations defining the term "foreign passthru payment" are filed with the U.S. Federal Register (such applicable date the "**Grandfathering Date**") (and any Notes which are treated as equity for U.S. federal tax purposes, whenever issued), the Issuer may, under certain circumstances, be required pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder ("**FATCA**") to withhold U.S. tax at a rate of 30% on all or a portion of payments of principal and interest which are treated as "foreign passthru payments" made on or after 1 January 2019 to an investor or any other non-U.S. financial institution through which payment on the Notes is made that is not in compliance with FATCA. As of the date of this Prospectus, final U.S. Treasury regulations defining the term "foreign passthru payments" have not been filed with the U.S. Federal Register. If the Issuer issues further Notes after the Grandfathering Date that were originally issued on or before the Grandfathering Date, payments on such further Notes may be subject to withholding under FATCA and, should the originally issued Notes of that series and the further Notes be indistinguishable (as would likely be the case in such a "tap" issue), such payments on the originally issued Notes may also become subject to withholding under FATCA, unless such further Notes are issued pursuant to a "qualified reopening" for U.S. federal income tax purposes.

The United States and Italy have entered into a Model 1 intergovernmental agreement to implement FATCA (the "**Italian IGA**"). Under the Italian IGA, an entity classified as a non-U.S. financial institution (an "**FFI**") that is treated as resident in Italy is expected to provide the Italian tax authorities with certain information on certain U.S. holders of its securities. Information on U.S. holders will be automatically exchanged with the U.S. taxing authorities. The Issuer is classified as an FFI and provided it complies with the requirements of the Italian IGA and the Italian legislation implementing the Italian IGA, it should not be subject to FATCA withholding on any payments it receives and it is not currently required to withhold tax on any "foreign passthru payments" that it makes. Although the Issuer may not be required to withhold FATCA taxes in respect of any foreign passthru payments it makes under the Italian IGA, FATCA withholding may apply in respect of any payments made on the Notes by any paying agent.

The application of FATCA to interest, principal or other amounts paid on or with respect to the Notes is not currently clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of a holder's failure to comply with FATCA, none of the

Issuer, any paying agent or any other person would pursuant to the Terms and Conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding of such tax.

Change of law or administrative practice

The conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

Decisions at Noteholders' meetings bind all Noteholders

Provisions for calling meetings of Noteholders are contained in the Agency Agreement and summarised in Condition 13(a) (*Meetings of Noteholders*). Noteholders' meetings may be called to consider matters affecting Noteholders' interests generally, including modifications to the terms and conditions relating to the Notes. These provisions permit defined majorities to bind all Noteholders, including those who did not attend and vote at the relevant meeting or who voted against the majority. Possible modifications to the Notes include, without limitation, lowering the ranking of the Notes, reducing the amount of principal and interest payable on the Notes, changing the time and manner of payment, changing provisions relating to redemption, limiting remedies on the Notes and changing the amendment provisions. Any such modification may have an adverse impact on Noteholders' rights and on the market value of the Notes.

Risks related to the market generally

Set out below is a brief description of the principal market risks.

There is no active trading market for the Notes and one cannot be assured

Application has been made for the Notes to be admitted to listing on the official list of the Irish Stock Exchange and trading on its regulated market. The Notes are new securities for which there is currently no market. There can be no assurance as to the liquidity of any market that may develop for the Notes, the ability of Noteholders to sell such Notes or the price at which the Notes may be sold. The liquidity of any market for the Notes will depend on the number of holders of the Notes, prevailing interest rates, the market for similar securities and a number of other factors. In an illiquid market, the Noteholders might not be able to sell their Notes at any time at fair market prices. There can be no assurance that an active trading market for the Notes will develop or, if one does develop, that it will be maintained. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and trading prices for the Notes.

The liquidity and market value of the Notes may also be significantly affected by factors such as variations in the Group's financial condition and results of operations, news announcements or changes in general market conditions. In addition, broad market fluctuations and general economic and political conditions may adversely affect the market value of the Notes, regardless of the actual performance of the Group.

Delisting of the Notes

Application has been made for the Notes to be listed on the Official List and admitted to trading on the regulated market of the Irish Stock Exchange. The Notes may subsequently be delisted despite the best efforts of the Issuer to maintain such listing and, although no assurance is made as to the liquidity of the Notes as a result of listing, any delisting of the Notes may have a material effect on a Noteholder's ability to resell the Notes on the secondary market.

Transfers of the Notes may be restricted, which may adversely affect the secondary market liquidity and/or trading prices of the Notes

The ability to transfer the Notes may also be restricted by securities laws or regulations of certain countries or regulatory bodies. The Notes have not been, and will not be, registered under the Securities Act or any state securities laws in the U.S. or the securities laws of any other jurisdiction. Noteholders may not offer the Notes in the United States to or for the account or benefit of a U.S. person except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. It is the obligation of each Noteholder to ensure that offers and sales of Notes comply with all

applicable securities laws. In addition, transfers to certain persons in certain other jurisdictions may be limited by law, or may result in the imposition of penalties or liability. For a description of restrictions which may be applicable to transfers of the Notes, see "*Subscription and Sale*".

The Notes are not rated and credit ratings may not reflect all risks

Neither the Notes nor the long-term debt of the Issuer are rated. To the extent that any credit rating agencies assign credit ratings to the Notes or any other senior unsecured indebtedness of the Issuer, such ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating or the absence of a rating is not a recommendation to buy, sell or hold Notes and may be revised, withdrawn or suspended by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing, and (iii) other restrictions apply to the purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in Euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than Euro. These include the risk that exchange rates may change significantly (including changes due to devaluation of the Euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Euro would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

In addition, government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which (subject to completion and amendment) will be endorsed on each Note in definitive form. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to Notes in definitive form to the extent described in the next section of this Prospectus entitled "Summary of Provisions relating to the Notes in Global Form".

The €100,000,000 Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2027 (the "**Notes**") of Banca Farmafactoring S.p.A. (the "**Issuer**") are the subject of a fiscal agency agreement dated 2 March 2017 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer and Citibank, N.A., London Branch as fiscal agent (in such capacity, the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and as paying agent (in such capacity, the "**Paying Agent**" and, together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). Certain provisions of these Conditions are summaries of the Agency Agreement and subject to its detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. Copies of the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. Definitions and Interpretation

(a) ***Definitions***

In these Conditions:

"**5-year Mid-Swap Quotations**" means the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating euro interest rate swap transaction which:

(i) has a term of five (5) years commencing on the Optional Redemption Date (Call);

(ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market; and

(iii) has a floating leg based on 6-month EURIBOR rate (calculated on an Actual/360 day count basis);

"**5-year Mid-Swap Rate**" means, in relation to the Initial Rate of Interest and to the Reset Rate of Interest:

(i) the annual mid-swap rate for euro swap transactions with a term of five (5) years commencing on the Issue Date or the Reset Date respectively, expressed as a percentage, which appears on the Screen Page as of 11:00 a.m. (Central European time) on such dates; or

(ii) if such rate does not appear on the Screen Page at such time on the Reset Date, the Reset Reference Bank Rate on such date;

"**Actual/360**" means the actual number of days in the relevant period divided by 360;

"**Applicable Banking Regulations**" means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy then applicable to the Issuer or the Group (as the case may be) including, without limitation, the CRD IV Package, the Capital Instruments Regulations, the Bank of Italy Regulations and any other regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the Relevant Authority or of the institutions of the European Union (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Issuer or the Group);

"**Bank of Italy Regulations**" means the Bank of Italy Circular No. 285 of 17 December 2013 (*Disposizioni di Vigilanza per le banche*), as amended or replaced from time to time;

"**BRRD**" means Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014, establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council, as amended or replaced from time to time;

"**BRRD Implementing Decrees**" means Legislative Decree 16 November 2015, No. 180, and Legislative Decree 16 November 2015, No. 181, of the Republic of Italy, implementing the BRRD, as amended or replaced from time to time;

"**Business Day**" means:

(i) in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place; or

(ii) in the case of payment by credit or transfer to a Euro account, a TARGET Settlement Day;

"**Calculation Amount**" means €1,000 in principal amount of Notes;

"**Capital Instruments Regulations**" means the Delegated Regulation and any other rules or regulations of the Relevant Authority or which are otherwise applicable to the Issuer or the Group (as the case may be), whether introduced before or after the Issue Date, which prescribe (alone or in conjunction with any other rules or regulations) the requirements to be fulfilled by financial instruments for their inclusion in the Own Funds of the Issuer or the Group (as the case may be) to the extent required under the CRD IV Package;

"**Common Equity Tier 1 Instruments**" means at any time common equity tier 1 instruments as interpreted and applied in accordance with Applicable Banking Regulations;

"**Consolidated Banking Act**" means the Legislative Decree 1 September 1993, No. 385 of the Republic of Italy, as amended or replaced from time to time;

"**Consolidated Operating Income**" means, in respect of any Relevant Period, the consolidated operating income of the Group for that Relevant Period;

"**Consolidated Profit Before Tax**" means, in respect of any Relevant Period, the consolidated profit before tax from continuing operations of the Group for that Relevant Period;

"**Consolidated Total Assets**" means, in respect of any Relevant Period, the consolidated total assets of the Group as at the end date of that Relevant Period;

"**CRD IV**" means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directive 2006/48/EC and 2006/49/EC, as amended or replaced from time to time;

"**CRD IV Package**" means the CRR and the CRD IV;

"**CRR**" means Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on the prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as amended or replaced from time to time;

"**Day Count Fraction**" means (i) the actual number of days in the period from and including the date from which interest begins to accrue (the "**Accrual Date**") to but excluding the date on which it falls due divided by (ii) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date;

"**Deed of Substitution**" means a deed poll substantially in the form annexed to the Agency Agreement;

"**Delegated Regulation**" means the Commission Delegated Regulation (EU) No. 241/2014 of 7 January 2014 supplementing the CRR with regard to the regulatory technical standards for Own Funds requirements for institutions, as amended or replaced from time to time;

"**Extraordinary Resolution**" has the meaning given to it in the Agency Agreement;

"**Farmafactoring España**" means Farmafactoring España S.A., a company incorporated under the laws of Spain with its registered office at C/Luchana, 23, 28010, Madrid, Spain;

"**FATCA**" has the meaning given to it in Condition 7(c) (*Payments subject to fiscal laws*);

"**Group**" means the Issuer and its Subsidiaries from time to time, taken as a whole;

"**Indebtedness**" means any indebtedness (whether being principal, premium or interest) of any Person for or in respect of money borrowed or raised, including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases; and

(iv) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having substantially the same commercial effect as borrowing;

"**Interest Payment Date**" means 2 March in each year;

"**Intermediate Holding Company**" means a Subsidiary of the Issuer which itself has Subsidiaries;

"**Issue Date**" means 2 March 2017;

"**Issuer Parity Creditors**" means creditors of the Issuer (including, without limitation, the Noteholders, and the Couponholders) whose claims against the Issuer are, or are expressed to be, subordinated in the event of the winding up of the Issuer in any manner to the claims of any unsecured and unsubordinated creditor of the Issuer, but excluding those subordinated creditors of the Issuer (if any) whose claims rank, or are expressed to rank, junior or senior to (i) the claims of the Noteholders and Couponholders and/or to (ii) the claims of any other creditors of the Issuer whose claims rank, or are expressed to rank, *pari passu* with the claims of the Noteholders and Couponholders or with whose claims the claims of the Noteholders and Couponholders rank, or are expressed to rank, *pari passu*;

"**Issuer Senior Creditors**" means creditors of the Issuer whose claims are admitted to proof in the winding up of the Issuer and who are either (a) unsubordinated creditors of the Issuer or (b) creditors

of the Issuer whose claims against the Issuer are, or are expressed to be, subordinated in the event of the winding up of the Issuer, but senior to the Notes;

"**Magellan**" means Magellan S.A. incorporated under the laws of Poland with its registered office in Al. Marszałka Jòzefa Piłsudskiego 7690-330, Łódź (Poland);

"**Margin**" means 6.164%, being equal to the margin used to calculate the Initial Rate of Interest and the Reset Rate of Interest;

"**Material Subsidiary**" means, at any time, Magellan, Farmafactoring España (for so long as each remains a Subsidiary of the Issuer) and any Subsidiary of the Issuer which (consolidated with its own Subsidiaries, if any) accounts for at least 10 per cent. of the Consolidated Operating Income, Consolidated Profit Before Tax or Consolidated Total Assets and, for these purposes:

(i) the Consolidated Operating Income, Consolidated Profit Before Tax and Consolidated Total Assets will be determined by reference to the then latest audited consolidated annual financial statements of the Group (the "**Relevant Consolidated Financial Statements**");

(ii) the operating income, profit from continuing operations before tax and total assets of each Subsidiary of the Issuer (the "**Relevant Line Items**") will be determined by reference to the annual financial statements (whether or not audited) of such Subsidiary and those of its own Subsidiaries (if any), in each case upon which the Relevant Consolidated Financial Statements have been based;

provided that: (A) if a Person has become a Subsidiary of the Issuer after the date on which the Relevant Consolidated Financial Statements have been prepared, the Relevant Line Items of that Subsidiary will be determined by reference to its latest annual financial statements (whether or not audited), consolidated if that Subsidiary itself has Subsidiaries; (B) where an Intermediate Holding Company has one or more Subsidiaries at least one of which, under this definition, is a Material Subsidiary, then such Intermediate Holding Company will be deemed to be a Material Subsidiary; and (C) the Relevant Consolidated Financial Statements and the corresponding financial statements of each relevant Subsidiary will be adjusted (where appropriate) to reflect fairly the Relevant Line Items of, or represented by, any Person, business or assets subsequently acquired or disposed of;

"Maturity Date" means 2 March 2027;

"Optional Redemption Date (Call)" means 2 March 2022;

"**Own Funds**" shall have the meaning assigned to such term in the CRR as interpreted and applied in accordance with the Applicable Banking Regulations;

"**Permitted Reorganisation**" means any reorganisation, amalgamation, merger, demerger, consolidation, contribution in kind or restructuring or other similar transaction, in each case whilst solvent:

(i) on terms previously approved by an Extraordinary Resolution of Noteholders;

(ii) in the case of a Material Subsidiary, whereby the assets and undertaking of such Material Subsidiary are transferred, sold, contributed, assigned or otherwise vested in the Issuer and/or another Material Subsidiary; or

(iii) in the case of the Issuer, whereby the assets and undertaking of the Issuer, including equity interests in Subsidiaries, or (in the case of a demerger) all or substantially all of such assets and undertaking, are vested in a body corporate in good standing (the "**Substitute**") and:

  (A) the Substitute is a bank duly incorporated and licensed to operate in Italy or in another Member State of the European Union;

  (B) the Substitute assumes the obligations of principal debtor under the Notes by operation of Italian law under the doctrine of universal succession, failing which on

or prior to completion of the transaction it executes and delivers a Deed of Substitution, a supplemental agency agreement and such other documents (if any), together with (where applicable) the other parties to the Agency Agreement, as may be necessary to give full effect to the substitution of such body corporate for the Issuer (such documents, including any supplemental agency agreement, the "**Additional Documents**");

(C) a certificate of the Substitute, signed by two directors or by a director and the Chief Financial Officer of the Substitute and addressed to the Fiscal Agent has been made available to the Noteholders at the Specified Offices of the Fiscal Agent, confirming the Substitute's belief that neither (1) the ability to perform the payment obligations of the principal debtor under the Notes nor (2) the rights and interests of Noteholders will be impaired as a result of the transaction;

(D) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Notes, the Deed of Substitution and/or the Additional Documents (as applicable) represent valid, legally binding and enforceable obligations of the Substitute have been taken, fulfilled and done and are in full force and effect;

(E) the Substitute has obtained opinions from lawyers of recognised standing as to matters of Italian law and (if different) of the jurisdiction of the place of incorporation of the Substitute, confirming as follows:

(1) fulfilment of the condition in paragraph (D) above (subject to all applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and general equitable principles);

(2) that the Substitute is validly incorporated under the laws of its jurisdiction with power and capacity to assume and perform the obligations under the Notes, the Deed of Substitution and/or the Additional Documents (as applicable); and

(3) that the Substitute has obtained all necessary approvals and consents (including governmental and regulatory consents) for the assumption and performance of its obligations,

and from lawyers of recognised standing as to matters of English law confirming the matters set out in (1) above, all such opinions to be made available to Noteholders at the Specified Offices of the Fiscal Agent, together with the Deed of Substitution and the Additional Documents (if any); and

(F) not later than 15 days after the execution of any Deed of Substitution and any Additional Documents, the Substitute shall give notice thereof to the Noteholders in accordance with Condition 15 (*Notices*),

and, following any such transaction, any reference in these Conditions to the "**Issuer**" shall be a reference to the Substitute;

"**Permitted Security Interest**" means:

(i) any Security Interest arising by operation of law and in the ordinary course of business of the Issuer or a Material Subsidiary which does not (either alone or together with any one or more other such Security Interests) materially impair the operations of such business and which has not been enforced against the assets to which it attaches;

(ii) any Security Interest existing over the assets of a company which becomes a Material Subsidiary after the Issue Date where such Security Interest already exists at the time that such company becomes a Material Subsidiary *provided that* (A) such Security Interest was

not created in contemplation of or in connection with that company becoming a Material Subsidiary, (B) the amounts secured by such Security Interest are not increased in contemplation of or in connection with that company becoming a Material Subsidiary of the Issuer or at any time thereafter;

(iii) any Security Interest created in connection with, or pursuant to, a securitisation, asset-backed financing or like arrangement where the payment obligations in respect of the Indebtedness secured by the relevant Security Interest are to be discharged solely from the revenues generated by the present or future assets (including receivables) over which such Security Interest is created; and

(iv) any Security Interest created by the Issuer or a Material Subsidiary for the purposes of an issue by the Issuer of covered bonds (*obbligazioni bancarie garantite*) in accordance with Italian Law No. 130 of 30 April 1999, as amended and implemented from time to time;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having a separate legal personality;

"**Rate of Interest**" means the Initial Rate of Interest or the Reset Rate of Interest, as the case may be;

A "**Regulatory Event**" is deemed to have occurred if there is a change (or pending change which the Relevant Authority considers to be sufficiently certain) in the regulatory classification of the Notes from the classification as of the Issue Date that results, or would be likely to result, in their exclusion in full or, to the extent permitted under the Applicable Banking Regulations, in part, from the Tier 2 Capital of the Issuer or the Group (as the case may be) or reclassification as a lower quality form of Own Funds, where applicable;

"**Relevant Authority**" means (i) the Bank of Italy or such other or successor authority in Italy or in the European Union having primary responsibility for the prudential supervision of the Issuer within the framework of the Single Supervisory Mechanism set out under the Regulation (EU) No. 1024/2014 and in accordance with the Applicable Banking Regulations, and/or, as the context may require, (ii) the resolution authority as defined under the BRRD, the BRRD Implementing Decrees and/or the SRM Regulation;

"**Relevant Date**" means, in relation to any Note or Coupon, the date on which payment in respect thereof first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given to the holders of Notes in accordance with Condition 15 (*Notices*) that, upon further presentation of the Note or Coupon being made in accordance with the Conditions, such payment will be made, *provided that* payment is in fact made upon such presentation;

"**Relevant Indebtedness**" means any present or future Indebtedness (whether being principal, premium, interest or other amounts) which is in the form of or represented by any note, bond, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, traded, quoted, listed or dealt in on any stock exchange, over-the-counter or other securities market;

"**Relevant Period**" means a twelve-month period ending on 31 December in each year;

"**Reserved Matter**" has the meaning given to it in the Agency Agreement and includes any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"**Reset Date**" means 2 March 2022;

"**Reset Rate of Interest**" means for each Interest Payment Date falling after the Optional Redemption Date (Call) the sum of (a) the 5-year Mid-Swap Rate prevailing on the Optional Redemption Date (Call); and (b) the Margin, as determined by the Fiscal Agent;

"**Reset Reference Bank Rate**" means, in relation to the Reset Date, the percentage rate determined on the basis of the 5-year Mid-Swap Rate Quotations provided by the Reset Reference Banks to the Fiscal Agent at approximately 11:00 a.m. (Central European time) on such Reset Date. If at least three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate will be -0.289% (being the Initial Rate of Interest less the Margin);

"**Reset Reference Banks**" means six leading swap dealers in the interbank market selected by the Fiscal Agent (excluding any Paying Agent or any of its affiliates) in its discretion after consultation with the Issuer;

"**Screen Page**" means Reuters screen "ICESWAP2" or such other page as may replace it on Reuters or, as the case may be, on such other information service that may replace Reuters, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates comparable to the 5-year Mid-Swap Rate;

"**Security Interest**" means any mortgage, charge, pledge, lien or other form of security interest including, without limitation, anything substantially analogous to any of the foregoing under the laws of any applicable jurisdiction;

"**SRM Regulation**" means Regulation (EU) No. 806/2014 of the European Parliament and of the Council of 15 July 2014, establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010, as amended or replaced from time to time;

"**Subsidiary**" means, in respect of the Issuer at any particular time, any *società controllata*, as defined in Article 2359 of the Italian Civil Code;

"**TARGET Settlement Day**" means any day on which the TARGET System is open for the settlement of payments in euro;

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system (TARGET2);

"**Tax Law Change**" means any change in, or amendment to, the laws and regulations of the Republic of Italy, or any political subdivision or any authority or agency thereof or therein, or any change in the application or interpretation or administration of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective or on after the Issue Date;

"**Tier 2 Capital**" means at any time tier 2 capital as interpreted and applied in accordance with the Applicable Banking Regulations; and

"**Tier 2 Instruments**" means at any time tier 2 instruments as interpreted and applied in accordance with the Applicable Banking Regulations.

(b) ***Interpretation***

In these Conditions:

(i) "**outstanding**" has the meaning given to it in the Agency Agreement;

(ii) any reference to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under Condition 8 (*Taxation*); and

(iii) any reference to the Notes includes (unless the context requires otherwise) any other securities issued pursuant to Condition 14 (*Further Issues*) and forming a single series with the Notes.

2. Form, Denomination and Title

The Notes are in bearer form in the denominations of €100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000 with Coupons attached at the time of issue. Notes of one denomination will not be exchangeable for Notes of another denomination. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

3. Status, Set-Off and Loss Absorption

(a) *Status*

The Notes qualify as Tier 2 Instruments to be included in the Tier 2 Capital of the Issuer for regulatory capital purposes, in accordance with the Applicable Banking Regulations and, in particular, with Article 63 of the CRR and Part II, Chapter 1 of the Bank of Italy Regulations.

The Notes and the relative Coupons constitute unsecured and subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves and with all other present and future unsecured and subordinated obligations of the Issuer (other than those subordinated obligations expressed by their terms to rank lower or higher than the Notes) save of those preferred by mandatory and/or overriding provisions of law.

In the event of a bankruptcy, dissolution, liquidation or winding-up of the Issuer or in the event that the Issuer becomes subject to an order for *Liquidazione Coatta Amministrativa* (as defined in the Consolidated Banking Act), the payment obligations of the Issuer in respect of principal and interest under the Notes will be subordinated to the claims of and junior to the Issuer Senior Creditors and will rank *pari passu* with the Issuer Parity Creditors.

(b) *Set-Off*

Subject to applicable law, neither any Noteholder or Couponholder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Notes or Coupons and each Noteholder and Couponholder shall, by virtue of his subscription, purchase or holding of any Note or Coupon, be deemed to have waived all such rights of set-off.

(c) *Loss Absorption*

The Notes (including, for the avoidance of doubt, payments of principal and/or interest) may be subject to full or partial write-down of the principal or conversion into Common Equity Tier 1 Instruments (the "**Loss Absorption Requirement**"), as required under the BRRD, the BRRD Implementing Decrees and/or the SRM Regulation, in accordance with the powers of the Relevant Authority, if the Relevant Authority determines that application of the Loss Absorption Requirement to the Notes is necessary pursuant to applicable law and/or regulation in force from time to time.

4. Negative Pledge

So long as any Note remains outstanding, the Issuer shall not, and the Issuer shall procure that none of its Material Subsidiaries will, create or permit to subsist any Security Interest (other than a Permitted

Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure (i) any Relevant Indebtedness or (ii) any guarantee and/or indemnity in relation to any Relevant Indebtedness, without (a) at the same time or prior thereto securing the Notes equally and rateably therewith or (b) providing such other security for the Notes as may be approved by an Extraordinary Resolution of Noteholders.

5. Interest

The Notes bear interest from (and including) the Issue Date to (but excluding) the Reset Date at the rate of 5.875 per cent. (the "**Initial Rate of Interest**"), being the rate that is equal to the sum of the 5-year Mid-Swap Rate on the Issue Date plus the Margin.

The Rate of Interest from (and including) the Reset Date to (but excluding) the Maturity Date will be the Reset Rate of Interest.

Interest is payable annually in arrear on each Interest Payment Date, subject as provided in Condition 7 (*Payments*). The first Interest Payment Date will be 2 March 2018.

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date prior to the Reset Date shall be €58.75 per Calculation Amount. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the denomination of such Note divided by the Calculation Amount.

6. Redemption and Repurchase

(a) *Scheduled Redemption*

Unless previously redeemed, or repurchased and cancelled, the Notes will be redeemed in whole at their principal amount on 2 March 2027, in the manner provided for in Condition 7 (*Payments*). The Notes are not redeemable at the option of the Noteholders and the Issuer shall have the right to call, redeem, repay or repurchase the Notes only in accordance with and subject to the conditions set out in Articles 77(b) and 78 of the CRR being met and not prior to 5 years from their Issue Date, except where the conditions set out in (i) Article 78(4) of the CRR, or (ii) in the case of repurchases for market making purposes (where applicable), Article 29(3) of the Delegated Regulation, are met (see Conditions 6(b) (*Redemption for tax reasons*), 6(c) (*Redemption upon the occurrence of a Regulatory Event (Regulatory Call)*), 6(d) (*Redemption at the option of the Issuer*), 6(f) (*Repurchase*) and 6(h) (*Regulatory conditions for call, redemption, repayment or repurchase of Notes*)).

(b) *Redemption for tax reasons*

The Notes may be redeemed at the option of the Issuer, in whole or, to the extent permitted under the Applicable Banking Regulations, in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their principal amount, together with interest accrued to the date fixed for redemption, if:

(i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (*Taxation*) and/or the part of the interest payable by the Issuer under the Notes that is tax-deductible by the Issuer for Italian tax purposes is reduced as a result of a Tax Law Change; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, *however*, *that* no such notice of redemption shall be given (i) earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due and (ii) unless, at the time such notice is given, the change or amendment constituting the Tax Law Change remains in effect (or due to take effect).

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent:

(A) a certificate signed by two duly authorised officers of the Issuer stating that it is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of the Tax Law Change.

Upon the expiry of any such notice as is referred to in this Condition 6(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6(b).

The redemption referred to in this Condition 6(b) shall be subject to Condition 6(h) (*Regulatory conditions for call, redemption, repayment or repurchase of Notes*).

In the case of a partial redemption of Notes, the serial numbers of the Notes to be redeemed will be published in accordance with Condition 15 (*Notices*) not less than 15 days prior to the date fixed for redemption. The Notes shall be selected for redemption in such place as the Fiscal Agent may approve and in such manner as the Issuer deems appropriate.

(c) ***Redemption upon the occurrence of a Regulatory Event (Regulatory Call)***

If the Issuer notifies the Noteholders of the occurrence of a Regulatory Event, the Issuer may redeem the Notes, in whole but not in part, at their principal amount, together with any accrued but unpaid interest to the date fixed for redemption, provided that (to the extent required by applicable law or regulation) the Issuer has given not less than 15 nor more than 30 days' notice to the Noteholders (such notice being irrevocable) specifying the date fixed for such redemption.

Upon the expiry of such notice period, the Issuer shall be bound to redeem the Notes accordingly.

The redemption referred to in this Condition 6(c) shall be subject to Condition 6(h) (*Regulatory conditions for call, redemption, repayment or repurchase of Notes*).

(d) ***Redemption at the option of the Issuer***

The Notes may be redeemed at the option of the Issuer in whole or in part on the Optional Redemption Date (Call) on the Issuer giving not less than 15 nor more than 30 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the Optional Redemption Date (Call)) at their principal amount plus accrued interest (if any) to such date.

The Issuer may not exercise the option to redeem, in whole or in part, the Notes in accordance with this Condition 6(d) prior to or after the Optional Redemption Date (Call).

The redemption referred to in this Condition 6(d) shall be subject to Condition 6(h) (*Regulatory conditions for call, redemption, repayment or repurchase of Notes*).

In the case of a partial redemption of Notes, the serial numbers of the Notes to be redeemed will be published in accordance with Condition 15 (*Notices*) not less than 15 days prior to the date fixed for redemption. The Notes shall be selected for redemption in such place as the Fiscal Agent may approve and in such manner as the Issuer deems appropriate.

(e) ***No other redemption***

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 6(a) (*Scheduled redemption*), 6(b) (*Redemption for tax reasons*), 6(c) (*Redemption upon the occurrence of a Regulatory Event (Regulatory Call)*) and 6(d) (*Redemption at the Option of the Issuer*) above.

(f) ***Repurchase***

The Issuer may not repurchase Notes prior to the fifth anniversary of their Issue Date, except for repurchases for market making purposes (where applicable), where the conditions set out in Article 29(3) of the Delegated Regulation are met and in particular with respect to the predetermined amount defined by the Relevant Authority, which according to Article 29(3)(b) of the Delegated Regulation may not exceed the lower of: (i) 10% of the amount of the relevant issuance; and (ii) 3% of the total amount of Tier 2 Instruments of the Issuer from time to time outstanding, or such other amount permitted to be purchased for market making purposes under the Applicable Banking Regulations.

Thereafter, the Issuer or any of its Subsidiaries may at any time repurchase Notes in the open market or otherwise and at any price, *provided that* all unmatured Coupons are purchased therewith.

Any repurchases referred to in this Condition 6(f) shall be subject to Condition 6(h) (*Regulatory conditions for call, redemption, repayment or repurchase of Notes*).

(g) ***Cancellation***

All Notes so redeemed or repurchased by the Issuer or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

(h) ***Regulatory conditions for call, redemption, repayment or repurchase of Notes***

Any call, redemption, repayment or repurchase of the Notes in accordance with Conditions 6(b) (*Redemption for tax reasons*), 6(c) (*Redemption upon the occurrence of a Regulatory Event (Regulatory Call)*), 6(d) (*Redemption at the option of the Issuer*) or 6(f) (*Repurchase*) is subject to the following conditions:

(i) the Issuer has obtained the prior permission of the Relevant Authority in accordance with Article 78 of the CRR, where either:

(A) on or before such call, redemption, repayment or repurchase (as applicable), the Issuer replaces the Notes with Own Funds instruments of equal or higher quality at terms that are sustainable for its income capacity; or

(B) the Issuer has demonstrated to the satisfaction of the Relevant Authority that its Own Funds would, following such call, redemption, repayment or repurchase, exceed the requirements laid down in Article 92(1) of the CRR and the combined buffer requirements as defined in the Italian provisions transposing or implementing point (6) of Article 128 of the CRD IV by a margin that the Relevant Authority considers necessary on the basis of the Italian provisions transposing or implementing Article 104(3) of the CRD IV; and

(ii) in respect of a redemption prior to the fifth anniversary of the Issue Date, if and to the extent required under Article 78(4) of the CRR or the Capital Instruments Regulations:

(A) in the case of redemption in accordance with Condition 6(b) (*Redemption for tax reasons*), the Issuer has demonstrated to the satisfaction of the Relevant Authority that the change in the applicable tax treatment of the Notes is material and was not reasonably foreseeable as at the Issue Date; or

(B) in the case of redemption in accordance with Condition 6(c) (*Redemption upon the occurrence of a Regulatory Event (Regulatory Call)*), the Issuer has demonstrated to

the satisfaction of the Relevant Authority that the change in the regulatory classification of the Notes was not reasonably foreseeable as at the Issue Date.

For the avoidance of doubt, any refusal of the Relevant Authority to grant its permission in accordance with Article 78 of the CRR shall not constitute a default of the Issuer for any purposes.

7. Payments

(a) *Principal*

Payments of principal shall be made only against presentation and (*provided that* payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by Euro cheque drawn on, or by transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System.

(b) *Interest*

Payments of interest shall, subject to Condition 7(f) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (*provided that* payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in Condition 7(a) (*Principal*) above.

(c) *Payments subject to fiscal laws*

All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 to 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof or any law implementing an intergovernmental approach thereto ("**FATCA**"). No commissions or expenses shall be charged by or on behalf of the Issuer or any of its agents to the Noteholders or Couponholders in respect of such payments.

(d) *Deduction for unmatured Coupons*

If a Note is presented without all unmatured Coupons relating thereto, then:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment, *provided*, *however*, *that* if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment; or

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment, *provided*, *however*, *that* where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment, *provided*, *however*, *that*, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that

proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in Condition 7(a) (*Principal*) above against presentation and (*provided that* payment is made in full) surrender of the relevant missing Coupons. No payments will be made in respect of void coupons.

(e) ***Payments on business days***

If the due date for payment of any amount in respect of any Note or Coupon is not a Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(f) ***Payments other than in respect of matured Coupons***

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.

(g) ***Partial payments***

If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

8. Taxation

(a) ***Gross-up***

All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Italy or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

(i) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the Republic of Italy other than the mere holding of the Note or Coupon; or

(ii) in relation to any payment or deduction of any interest, principal or other proceeds of any Note or Coupon on account of *imposta sostitutiva*, pursuant to Italian Legislative Decree No. 239 of 1 April 1996 ("**Decree No. 239**") and related implementing regulations, as amended, supplemented or re-enacted from time to time; or

(iii) by or on behalf of a holder who would have been able to avoid such withholding or deduction by (A) presenting the relevant Note or Coupon to another available Paying Agent in a Member State of the European Union or (B) making a declaration of non-residence or other similar claim for an exemption; or

(v) in each case, in which the formalities to obtain an exemption from *imposta sostitutiva* under Decree No. 239 have not been complied with, except where such formalities have not been complied with due to the actions or omissions of the Issuer or its agents; or

(vi) more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.

(b) ***Taxing jurisdiction***

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Italy, references in these Conditions to the Republic of Italy shall be construed as references to the Republic of Italy and/or such other jurisdiction.

(c) ***FATCA***

For the avoidance of doubt, the Issuer will have no obligation to pay additional amounts in respect of the Notes for any amounts required to be withheld or deducted pursuant to FATCA if withholding is imposed under those rules as a result of the failure by any person other than the Issuer or any of its agents to establish that they are able to receive payments free of such withholding.

9. Events of Default

In the event of a voluntary or involuntary winding up, dissolution, liquidation or bankruptcy (including, inter alia, *Liquidazione Coatta Amministrativa*) of the Issuer, otherwise than for the purposes of a Permitted Reorganisation or on terms previously approved by an Extraordinary Resolution of the Noteholders, any holder of a Note may, by written notice to the Issuer at the specified office of the Fiscal Agent, effective upon the date of receipt thereof by the Fiscal Agent, declare any such Notes held by the holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at its principal amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

10. Prescription

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

11. Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Paying Agent may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

12. Paying Agents

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent and additional or successor paying agents; *provided*, *however*, *that* the Issuer shall at all times maintain (a) a fiscal agent and (b) a paying agent in a jurisdiction within the European Union, other than the Republic of Italy or (if different) the jurisdiction to which the Issuer is subject for the purpose of Condition 8(b) (*Taxing jurisdiction*).

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

13. Meetings of Noteholders; Noteholders' Representative; Modification

(a) ***Meetings of Noteholders***

The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by it upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided*, *however*, *that* Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more Persons holding or representing not less than two-thirds or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) ***Modification***

The Notes and these Conditions may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is not materially prejudicial to the interests of the Noteholders. In addition, the parties to the Agency Agreement may agree, without the consent of the Noteholders, to modify any provision thereof in order to comply with mandatory laws, legislation, rules and regulations of the Republic of Italy applicable to the convening of meetings, quorums and the majorities required to pass an Extraordinary Resolution.

14. Further Issues

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

15. Notices

Notices to the Noteholders shall be valid if published in a reputable leading English language daily newspaper published in London with an international circulation and, for so long as the Notes are admitted to trading on the regulated market of the Irish Stock Exchange and it is a requirement of applicable laws and regulations, on the website of the Irish Stock Exchange (*www.ise.ie*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe (which is expected to be the *Financial Times*). Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

16. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an

order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

17. Governing Law and Jurisdiction

(a) ***Governing law***

The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law, save for the subordination provisions which are governed by Italian law.

(b) ***Jurisdiction***

The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes). The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(c) ***Proceedings outside England***

Condition 17(b) (*Jurisdiction*) is for the benefit of Noteholders only. To the extent allowed by law, any Noteholder may take (i) proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction and (ii) concurrent Proceedings in any number of jurisdictions.

(d) ***Process agent***

The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX or, if different, at its registered office for the time being or at any address of the Issuer in Great Britain at which process may be served on it in accordance with the Companies Act 2006. If such Person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer or it ceases to be registered in England or, for any other reason, is unable or unwilling to act in such capacity, the Issuer shall immediately appoint a further Person in England to accept service of process on its behalf. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

There will appear at the foot of the Conditions endorsed on each Note in definitive form the names and Specified Offices of the Paying Agents as set out at the end of this Prospectus.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

*The following is a summary of the provisions to be contained in the Temporary Global Note and the Permanent Global Note (together, the "**Global Notes**") which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes.*

Initial form of Notes

The Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Closing Date with a common safekeeper for Euroclear and Clearstream, Luxembourg.

Eligibility of the Notes for Eurosystem monetary policy

The Notes will be issued in new global note form and, as such, are intended to be held in a manner which will allow for them to be eligible as collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem. This means that the Notes are upon issue deposited with one of the international central securities depositories (ICSDs) as common safekeeper, but does not necessarily mean that the Notes will actually be recognised as eligible, either upon issue or at any time during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria and other obligations, as specified by the European Central Bank from time to time. As at the date of this Prospectus, one of the Eurosystem eligibility criteria for debt securities is an investment grade rating and, accordingly, as the Notes are unrated, they are not currently expected to satisfy the requirements for Eurosystem eligibility.

Exchange for Permanent Global Notes

The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date, upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Tradeable amounts

So long as the Notes are represented by a Global Note and the relevant clearing system(s) so permit, the Notes will be tradeable only in (i) the minimum authorised denomination of €100,000, and (ii) higher denominations which are integral multiples of €1,000, up to and including €199,000.

Exchange for Definitive Notes

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in denominations of €100,000 and higher integral multiples of €1,000, up to and including €199,000, at the request of the bearer of the Permanent Global Note if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business, or (b) any of the circumstances described in Condition 9 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached (in respect of interest which has not already been paid in full on the Permanent Global Note), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(i) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has duly requested exchange of the Permanent Global Note for Definitive Notes; or

(ii) the Permanent Global Note (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in

full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (i) above) or at 5.00 p.m. (London time) on such due date (in the case of (ii) above) and the bearer of the Permanent Global Note will have no further rights thereunder, but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under a deed of covenant executed by the Issuer dated 2 March 2017 (the "**Deed of Covenant**"). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in the Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes that they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

Modifications to Terms and Conditions of the Notes

In addition, the Global Notes will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Notes. The following is a summary of certain of those provisions:

Payments

All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg.

Payments on business days

In the case of all payments made in respect of the Temporary Global Note and the Permanent Global Note, "**Business Day**" means any day which is a TARGET Settlement Day.

Notices

Notwithstanding Condition 15 (*Notices*), while all the Notes are represented by the Permanent Global Note and/or the Temporary Global Note, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 15 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg, except that, for so long as such Notes are admitted to trading on the Irish Stock Exchange and it is a requirement of applicable law or regulations, such notices shall be published in a leading newspaper having general circulation in the Republic of Ireland or published on the website of the Irish Stock Exchange (*www.ise.ie*).

Redemption at the Option of the Issuer

While all the Notes are represented by the Permanent Global Note and/or the Temporary Global Note, in the case of a partial redemption of Notes pursuant to Condition 6(b) (*Redemption for Tax Reasons*) or Condition 6(d) (*Redemption at the Option of the Issuer*), the Notes shall be selected for redemption in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used for general corporate purposes of the Group.

INDUSTRY

Certain industry and market data set forth in this section has been derived directly from third party sources as indicated in the text. Other information has been prepared by management on the basis of third party data.

The following information describes our performance in the market in which the Group carried out its Traditional Activities (as defined below) and in which Magellan operates, and our comparative advantages relative to the competitors in our industry. In Italy, we have strategically developed our position as a major factoring operator specialized in the management and purchase of receivables held against the public administration, with a particularly strong and consolidated presence in the healthcare sector. We are also strategically expanded organically in Italy, Spain and Portugal-the most important markets in Europe for these operations-and operate in an industry that generally tends to carry a lower risk profile than traditional bank receivables (*Source: Assifact and Bank of Italy*). Following the Magellan Transaction, we now carry out our business in Poland, the Czech Republic and Slovakia. See "*Description of the Issuer—Subsidiaries—Acquisition of Magellan*".

The information set forth below addresses our industry's historic and performance metrics concerning public spending on goods and services, having particular regard to the health care sector. This information is also accompanied by a brief overview of our direct competitors performance and operations in the various countries in which we operate.

Overview

Factoring is a contract whereby a party ("**supplier**" or "**transferor**") transfers all or a significant part of its receivables, usually commercial receivables, held against a third party ("**transferred debtor**") to a specialized intermediary ("**factor**"), exchanging them for the early payment equal to the value of the receivables. The factor, upon payment of consideration usually represented by a commission, also offers a series of services for the management of the transferred credit (including auxiliary services such as accounting, certification, and reconciliation).

Factoring contracts can be divided into two types, with recourse and without recourse. In recourse factoring, the transferor retains the risk of insolvency of the transferred debtor, whereas in non-recourse factoring the credit risk is entirely transferred to the factor.

In 2015, the European factoring market generated a turnover (i.e. the volume of receivables acquired) of €1,471 billion, after growing throughout the period of the recession (from 2010-2014), with a peak growth recorded in 2010 (19.6%), followed by a slow-down in volume growth during the subsequent years. In the first half of 2016 the turnover volumes amounted to €705 billion, an increase of 3.14% over the same period of 2015, corresponding to a total of €1,465 billion of loans acquired in the previous 12 months (*Source: EU Federation Factoring & Commercial Finance - EUF*).

We operate in Italy, Spain and Portugal, the most important markets in Europe for their structural characteristics. In particular, in 2015 the incidence in trade payables of the public sector on the GDP was equal to 3.0% in Italy, 1.4% in Spain and 1.3% in Portugal. In particular, the main markets in which we operate, Italy and Spain, have similar features in terms of concentration, with the first three operators holding, respectively, a 60% and 63% market share of the factoring receivables purchased in 2016. As mentioned above, our business has expanded to Poland, the Czech Republic and Slovakia following the Magellan Transaction.

Concerning the Italian, Spanish and Portuguese markets, although they present large volumes of receivables purchased (contributing to the annual turnover of the factoring business), they are already developed and consolidated markets. In particular, the progressive consolidation of the factoring business, along with the subdued growth of public spending following the period of economic crisis, have led to a general stationary trend in the business in the past years.

Factoring played a significant role in supporting commercial activity in the recent recession, by providing liquidity and reducing imbalances due to late payments of commercial transactions.

Factoring has traditionally been less costly than other forms of bank credit, by between 1% and 2% in the fourth quarter of 2016 (*Source: Bank of Italy*), having a lower risk profile (in terms of percentage of non-performing loans) compared to that recorded for traditional bank receivables, with an incidence of 3.4% of non-performing loans in relation to total receivables, versus 10.6% in December 2015 (*Source: Assifact and Bank of Italy*). The lower cost and lower incidence of non-performing loans is also increased by the ability to undertake double risk assessment in factoring. This implies that risk assessment is not limited solely to the borrower but also extends to the assessment of the debtor transferred under the relative factoring agreement and to the type of underlying transaction to the factoring relates. The factor is able to obtain a more accurate estimate of the intrinsic risk of the commercial transaction, because the factor assumes or inherits the risk of the original creditor in the management of the trade receivable. Conversely, in traditional bank credit, the lender may not have a direct understanding of the evolution of the supplier/client trade relationship.

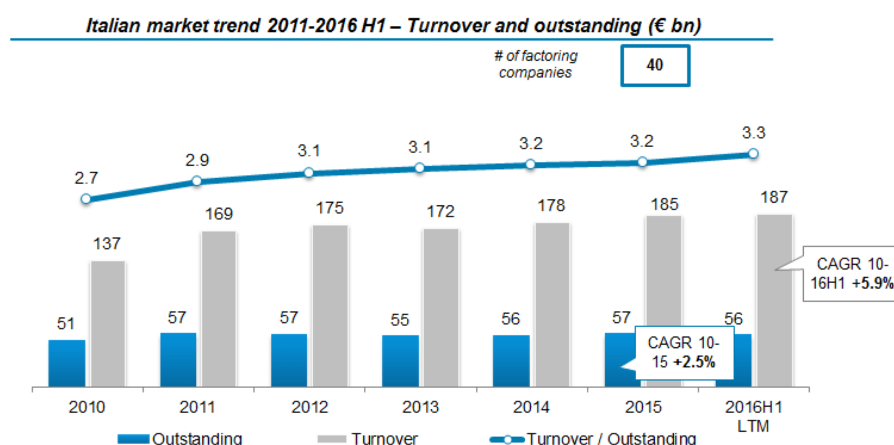
Italian Factoring Market

In 2016, the Italian factoring market generated a turnover of approximately €202 billion, representing an increase of 9.5% compared to the previous year. In 2015, Italy's factoring was the fourth largest in Europe, after the United Kingdom, France and Germany and accounted for approximately 13% of the total volume purchased in Europe. In 2016, the stock of receivables of the Italian market was approximately €61 billion, representing a 6.1% increase compared to the previous year.

In Italy, factoring grew significantly between 2010 and 2012, with turnover up by 28%, corresponding to a CAGR of 13%, followed by a period of substantial stability from 2012 to 2014, with signs of recovery since 2015. Outstanding volumes increased by 13% in 2011 compared to 2010 and then remained relatively stable in the period from 2011 to 2016. Overall, both turnover and the stock of receivables grew during this period at an annual rate (CAGR) of 6.8% and 3.1% respectively. The turnover ratio of receivables (turnover over stock), grew from 2.7x in 2010 to 3.3x in 2016. Factoring played an important role in supporting enterprises during the recent economic crisis, maintaining constant levels of growth in disbursements in past years, demonstrating negative correlation to other bank credit instruments, and significantly contributing to the reduction of the financial imbalances of enterprises (in the specific case of our clients, generated by late payments by the Public Administration).

The 2015 Italian Stability Law introduced the mechanism of the Split Payment Mechanism for invoices issued between 1 January 2015 and 31 December 2017, according to which the Public Administrations pay directly to the tax authorities the VAT charged to them by the suppliers, with a consequently lower amount, corresponding to the average rate on such invoices, of the receivables purchased by the factor. See "*Risk Factors—Risks Related to Our Industry— The introduction of the so-called "split payment" of VAT for transactions involving public bodies could be extended and could impact the way we operate our business*".

Source: Assifact, Factor Chain International



Source: Assifact, Factor Chain International

In recent years, non-recourse factoring accounted for approximately two thirds of total turnover and as of 31 December 2016, it comprised 70% of the stock of existing receivables, including purchase of VAT receivables

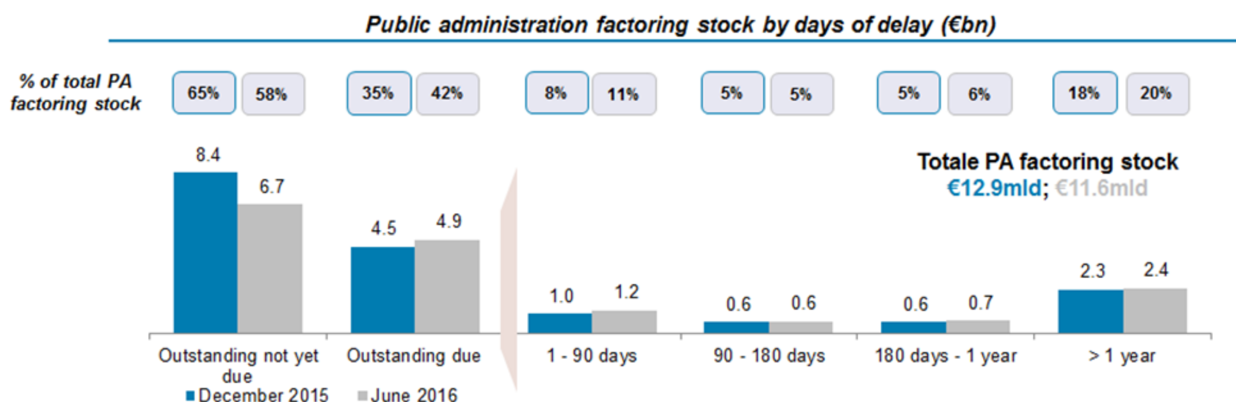
and other tax receivables[1]. In relation to the breakdown of debtors, at the end of 2016 approximately 22.6% of the stock was represented by receivables held against the public administration (not including companies under state control) of which approximately 8.4% of the total stock came from the health sector, and approximately 55.3% came from non-financial entities (*Source: Assifact*).

The stock of non-recourse receivables held *vis-à-vis* the public administration, equal to €7.3 billion in 2016, went down by 5.0% compared to 2015, also due to the introduction of the split payment mechanism, anyhow raising its share (62% as of December 2016 compared to 59% in 2015) in the overall amount of receivables held *vis-à-vis* the public administration, decreasing from €12.9 billion in December 2015 to €11.8 billion in 2016 (*Source: Assifact*).

Taking into account the average turnover ratio (turnover/outstanding) of the main active operators in the purchasing of receivables held *vis-à-vis* the public administration (approximately 1.8x per year, based on turnover volumes towards the public administration of the main operators in the public administration factoring market; like us, IFIS Bank, Banca Sistema, SACE Fct and Unicredit Factoring), the overall turnover value from the public administration is estimated at approximately 15% or around €27 billion for 2015, of which €16 billion relating to non-recourse volumes. Moreover, given that government expenditures for goods and services for the year 2015 were estimated at €133 billion, factoring product penetration in the public administration sector (calculated as the turnover of the public administration on total government expenditure for goods and services) is correspondingly equal to around 20%, of which 12% without recourse business.

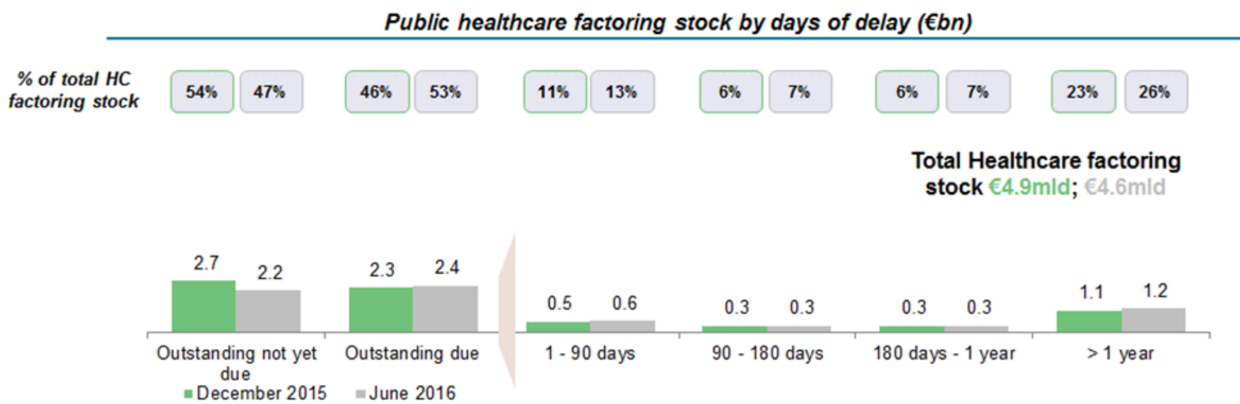
Additionally, given 2015 VAT expenditures for goods and services were not impacted by the Split Payment Mechanism, the penetration rate was actually higher.

In terms of payment periods, at the end of 2016 approximately 34% of the stock of loans claimed from the public administration and purchased by the factoring companies (equal to €4.0 billion) was classified as matured receivables: in particular receivables past due by more than a year (approximately 20% of the stock of loans from the public administration, equal to €2.3 billion). Those due within 1-90 days totalled approximately 6% of the stock of loans from the public administration, equal to €0.7 billion. In particular, the health sector presents the highest percentage of overdue receivables (approximately 44% of the total), of which approximately 26% of the stock of loans held against public healthcare (equal to €1.1 billion) was found to be past due by more than a year, followed by those due within 1-90 days (approximately 7% of the stock of the loans from the public healthcare, equal to €0.3 billion).



Source: Issuer analysis of Assifact data and company internal data

[1] Breakdown between non-recourse and other categories not available as of the date of this Prospectus



Source: Issuer analysis of Assifact data and company internal data

Spanish Factoring Market

In 2011, in response to the needs of international clients, we decided to extend our operations to Spain through our subsidiary Farmafactoring España and Portugal where under the freedom of service regime. In Spain, the factoring business is divided into two types of products: (i) traditional factoring and (ii) confirming, which is an alternative to other payment systems, offering liquidity to suppliers and thereby simplifying their financial and administrative procedures. Confirming substantially consists of the issuance of an order confirmation by a confirming house (or factoring company), in favour of the supplier of goods or services, assuming the obligation to pay within the terms requested by the relevant supplier, accompanied by the granting of a longer payment extension to the relative client. Confirming accounts for a sizeable portion of the total Spanish market, i.e. approximately 50% of the turnover generated in 2015.

The volumes of the Spanish factoring market remained substantially stable during the period between 2010-2015 (CAGR 0.4%): the positive trend in the period between 2010 and 2012, with turnover increasing to €124 billion (CAGR 5%) has been followed by a phase of contraction between 2012-2015 (CAGR -2.4%). In 2015, volumes of purchased receivables amounted to €115 billion, 6% higher relative to the previous year. In 2015, approximately 69% of the domestic receivables acquired were represented by non-recourse contracts, a significant decrease with respect to 2014 (-1%). In 2015, the turnover relative to the non-recourse contracts amounted to €29.3 billion (-1% in relation to 2015), of which 24% is represented by receivables from public entities (*Source: FAE*).

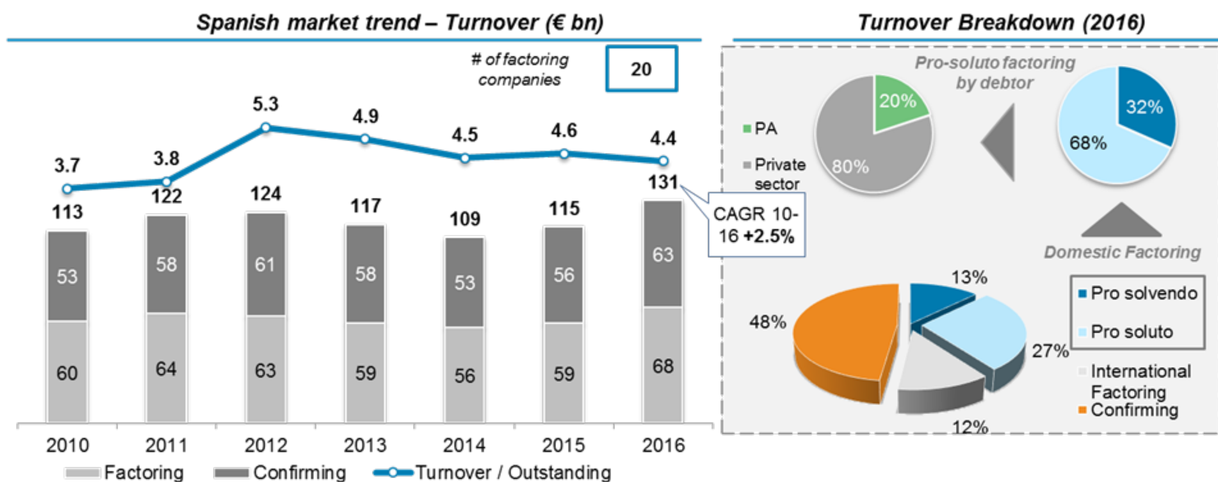
In 2016, the volumes of the sold receivables registered an increase of 6.8% compared to the same period of the previous year, for a turnover of €130.7 billion; €67.9 billion of which are represented by proceeds from the traditional factoring activities. The non-recourse factoring contracts amounted to €35.7 billion, of which €6.3 billion claimed toward the Public Administration (*Source*: *Issuer internal data*)[2].

The receivables turnover ratio grew significantly in 2012 (5.3x versus 3.8x in 2011), remaining high at 4.6x in 2015 as well. These portfolio turnover levels are higher than those in the Italian market (which grew only slightly from 2.7x to 3.2x in the same period).

In 2015, the turnover of non-recourse receivables from public entities, was equal to approximately €6.5 billion (€8.8 billion, including recourse receivables), representing 24% of the total of non-recourse factoring in the market, with the share decreasing to 11% of total factoring volumes (excluding confirming). Given that government expenditures for goods and services was approximately €56.4 billion in 2015 (*Source: Reino de España*), the penetration of non-recourse factoring products in the public entities segment was equal to approximately 16% (of which 12% only takes into account the non-recourse receivables turnover quota).

In 2016, the turnover of non-recourse receivables from public entities, remained almost stable at €6.3 billion (€8.9 billion, including recourse receivables), reducing its share with respect to total non-recourse factoring volumes to 20% and to 9% of total factoring volumes (excluding confirming).

[2] 2016 growth in volumes is also due to new FAE members, one of which did not provide 2015 data. However, considering volumes related to the 2016 new members, total volumes for 2015 would be above €122.4 billion.



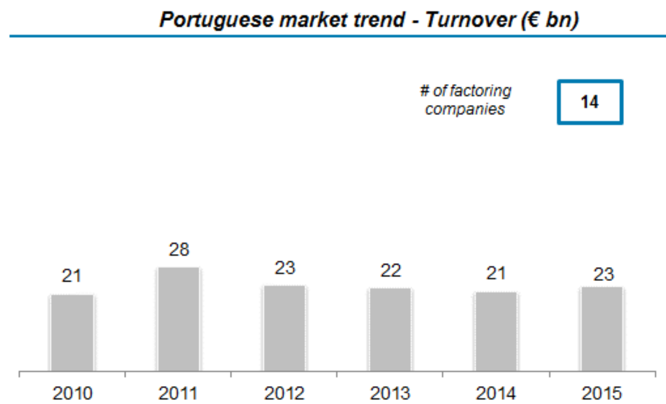
Source: FAE, Factor Chain International

Portuguese Factoring Market

Since 2014, we have operated directly in the Portuguese market of non-recourse factoring of receivables claimed from the Portuguese national healthcare system, with growth prospects with the central public administrations.

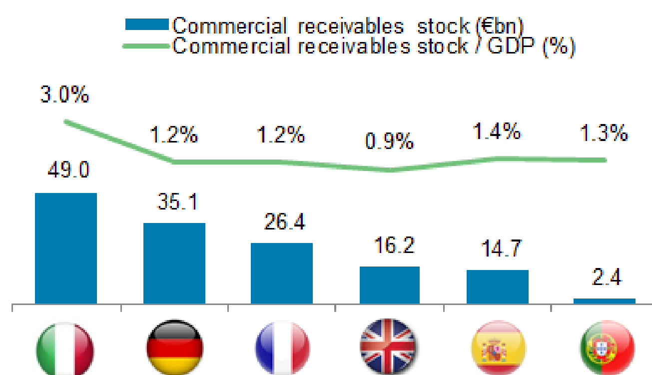
In 2015, the Portuguese factoring market, considerably smaller than the Spanish market, recorded a volume of acquired receivables of €23 billion (*Source: EUF*).

In recent years, trends in acquired receivables reflect strong variability, with 34% annual growth between 2010-2011, followed by a significant decline in volumes (-8% annually from 2011 to 2014). In 2015, volumes of purchased credits increased (7.1%) compared to the previous year.



Source: Factor Chain International, EUF

In the various countries in which we operate, we have developed a strategic position as a specialized operator in the management and purchase of receivables held *vis-à-vis* the public administration, with a consolidated presence in the Health sector. In 2015, the commercial receivables of the public sector, in relation to GDP, were equal to 3.0% in Italy, 1.4% in Spain and 1.3% in Portugal, as set forth in the table below.



Source: Eurostat

Market for Public Spending for Goods and Services

Italy

Total public spending in 2015 amounted to €759.7 billion, 46.4% of GDP, down 1.1% compared to 2014. The main public spending items consist of expenses for personnel (21.3%), goods and services (17.5%) and other expenses including social services, other current expenses and interest expense (61.2%). The main spending sectors of public administrations pertain to monetary outlays for social security (20.3% of GDP), public sector employees (9.9%) and healthcare (6.9% of GDP) (*Source: Economy and Finance Document published by the Italian Ministry of the Economy and Finance on* 8 April 2016).

We have focused our business on factoring and on the management of the receivables which suppliers claim from the public administration. Based on the characteristics of this business model, the expense for goods and services is the public spending item of reference; these are the outlays for the purchase of current intermediate assets (consumables and equipment) and work services (but also investments) which increase the stock of public capital (infrastructure and public buildings) whose expense for goods and services incurred by the Italian national healthcare system represents our traditional market.

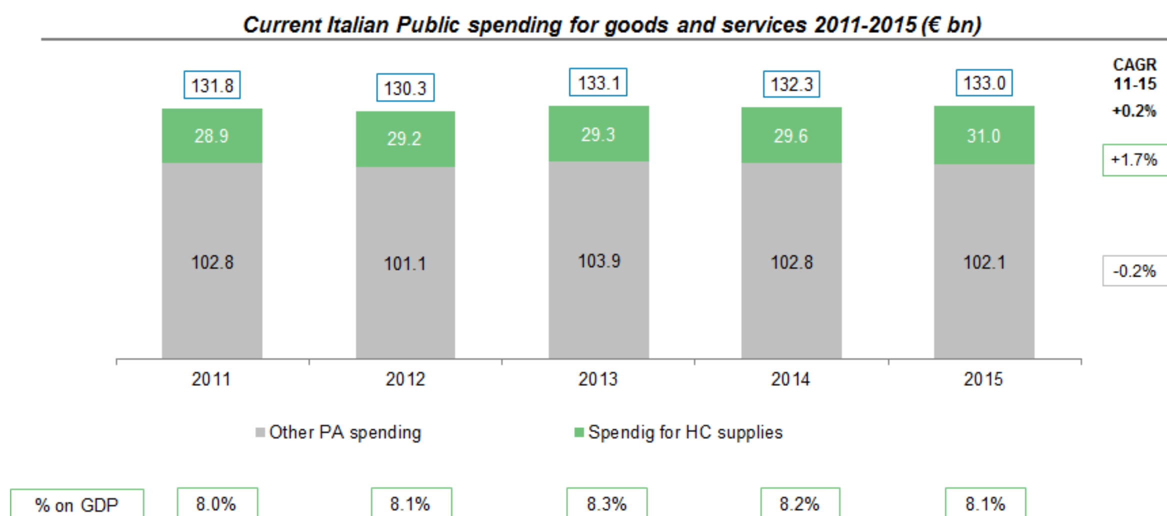
In 2015, public spending for goods and services amounted to €133.0 billion (8.1% of GDP) with a CAGR of 0.2% from 2011 to 2015; the expense incurred by the Italian national healthcare system amounted to €31.0 billion (23% of total public spending for goods and services), of which €8.5 billion was for the purchase of pharmaceutical, biomedical and diagnostic materials and €22.5 billion derived from purchases from other suppliers of the Italian national healthcare system (e.g. utilities, telecommunications, maintenance).

Despite recent initiatives adopted by the Italian government, the relevant market has a stable trend. Between 2011 and 2015, public spending had a stable trend, due mainly to spending cuts undertaken by the Italian government to face the adverse economic conditions of the country. The public spending for the Italian national healthcare system grew in the last three years from €109.9 billion in 2013 to €112.4 billion in 2015. Interim consumption increased during the five year 2011-2015 (CAGR 1.7%) with a relevant increase in 2015 (5% higher than 2015).

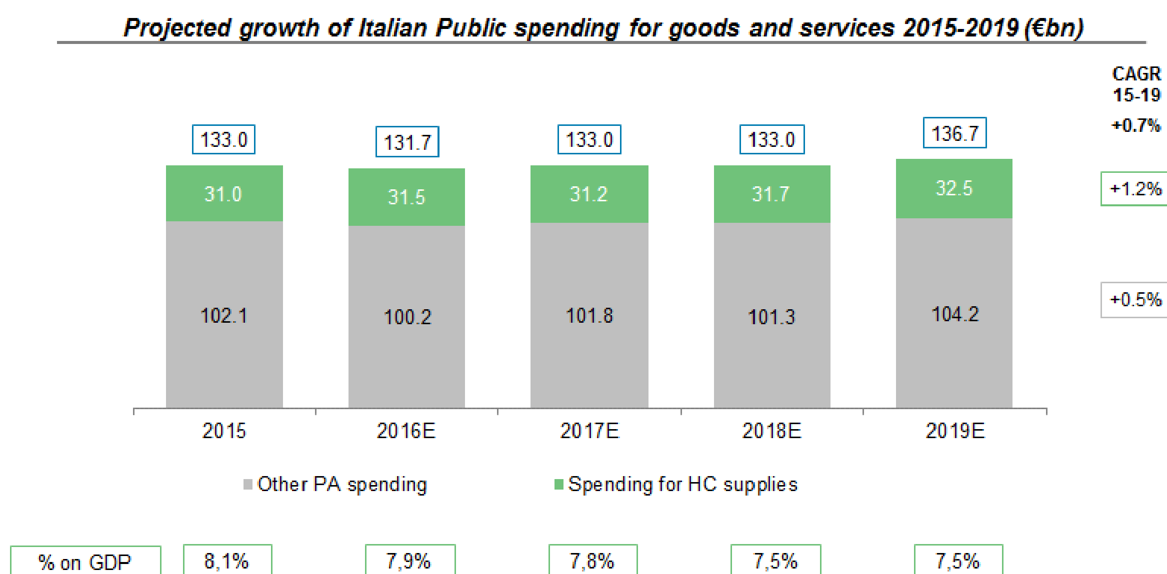
Public finance projections for the period from 2016 to 2019 estimate an increase in public spending for goods and services, expected to reach €136.7 billion in 2019 compared to €133.0 billion in 2015 (0.7% CAGR) (*Source: Documento di Economia e Finanza 2016*). This increase in public spending, connected to a reduction in its proportion of the GDP, from 8.1% in 2015 to 7.5% in 2019, as a consequence of the legislative measures approved in March 2015 with specific reference to the issue of the payment of the previous debts of the public administrations. The update of the Economy and Finance Document as of 30 September 2016 has slightly

revised the estimates of expenditure for the next five years, particularly in relation to the savings in spending on goods and services estimated for 2016, which are expected to be in line with 2015 at Euro 133.4 billion.

The expenses for goods and services of the Italian national healthcare system are expected to increase at an annual rate of 1.2%, reaching approximately €32.5 billion in 2019, as set forth in the table below.



Source: Ministero dell'Economia e delle Finanze—Documento di Economia e Finanza



Source: Ministero dell'Economia e delle Finanze—Documento di Economia e Finanza 2016

Since April 2013, the Italian government has adopted several urgent measures aimed primarily at: (i) reducing the overdue debts to private enterprises of the public administration and in particular of the Italian national healthcare system, characterized by endemic late payments because of under-funding and administrative complexities, and (ii) avoiding a new accumulation of overdue debts. The main measures approved by the government since 2013 are listed below:

- Italian Decree Law No. 35/2013 aimed at assuring payment to enterprises of overdue receivables of approximately €40 billion within 12 months, starting from mid-2013.

- Italian Decree Law No. 102/2013, whereby the government allocated an additional amount of €7.2 billion for 2013.

- The 2014 Italian Stability Law, which allocated an additional amount of €0.5 billion.
- Italian Decree Law No. 66/2014 which provided for an additional of €9.3 billion liquidity injection during the course of 2014, of which €3.8 billion to Regions and autonomous provinces, €5 billion to local authorities and €0.55 billion to the ministries. The decree introduced: (i) the electronic invoicing requirement for the public administration, to make public spending data available to the government and (ii) the opportunity to receive a State guarantee certifying receivables from the public administration arising before 31 December 2013, subject to certification of an application before 31 October 2014 and transferred to financial intermediaries.
- The 2015 Italian Stability Law, which reversed the prior trend and instead prescribed measures to streamline spending, to be implemented by the Regions, with cuts amounting to 0.28% of GDP 2015-2018, corresponding to approximately €4.5 billion (*Source*: *MEF2016 budget planning document*). This measure could also have repercussions on the ability to pay entities which are part of the Italian national healthcare system, which is directly financed at the regional level.
- The 2016 Italian Stability Law which provides for a stable amount of financial resources to be allocated to the Italian national healthcare system amounting to approximately €111 billion during 2016, €2 billion less than the €113 billion provided in the economic and financial document (i.e., a document approved by the Italian government and which sets forth the main economic policies and guidelines 2015) (*Documento di Economia e Finanza or* "**DEF**") (*Source*: *MEF2016 budget planning document*). However, approximately €2 billion of additional incremental expenses are expected compared to the 2015 forecast.

Overall, the State made financial resources and instruments available for a total amount of over €57 billion for the payment of receivables accrued as of 31 December 2013. As of 11 August 2015 the resources disbursed to debtor agencies amounted to approximately €44.6 billion (78% of the total amount of financial resources and instruments). The payments made to creditors on these resources amount to approximately €38.6 billion.

According to the estimates provided by the Bank of Italy, the trade payables of the public administration in 2014 amounted to approximately €75 billion, decreasing by 5% compared to 2013 and by 20% to the maximum amount estimated at the end of 2012 (approximately €90 billion) (*Source: Annual Report 2015*). The estimate, which has a certain degree of uncertainty, represents the sum of two components: (i) trade payables sold to financial intermediaries under non-recourse arrangements which have been registered according to the supervisory reports to the Bank of Italy, and (ii) the trade liabilities registered in the financial statements of the companies which have been estimated according to the sample surveys conducted by the Bank of Italy.

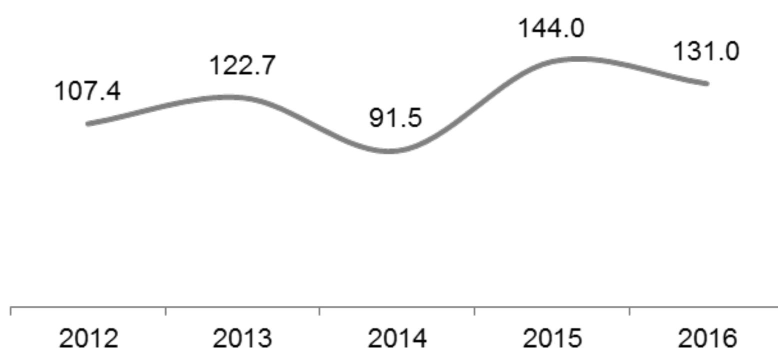
The non-recourse trade payables held by factoring companies amount to approximately €7.7 billion (*Source*: Assifact). At the end of 2014 the trade payables in Italy amounted to over €52.4 billion, representing 3.3% of the GDP (decreasing in 2015 to €49 billion, representing 3% of the GDP): the highest amount among the European Union countries (*Source: Eurostat, April 2016; on the basis of the data provided by the national statistical institutes in the framework of the excessive deficit procedure*).

During 2014 the government measures significantly decreased the stock of unpaid invoices and of overdue receivables compared to 2013. The measures reduced the number of overdue invoices to 32.4% as of December 2014 from 56.3% as of December 2013. In 2015, a trend reversal occurred as 66.9% of the invoices were overdue as of September 2015, returning to the maximum amount registered in 2013 and with an average payment time of approximately 116 days (*Source: Cerved Report-The payments of the public administration, subsidiaries and suppliers*).

In 2016 the payment times of the public administration recorded a significant improvement, in particular with respect to private companies, with a decrease in DSO to 131 days, compared to 144 days in 2015 (*Source: Intrum Justitia*).

In relation to the health segment, historically, as the worst performing sector of the public administration over the years, the payment times as of December 2016 were equal to 141 days, compared to 156 days as of December 2015, considering the statutory deadline provided by law (*i.e.* 60 days) (*Source: Assobiomedica*).

Data points concerning the average payment days and stocks of unpaid invoices of the Italian national healthcare system generally tend to be underestimated because they do not account for the portion of receivables transferred to factoring companies in non-recourse transactions which instead are accounted as already collected in the financial statements of the suppliers of the public administration.

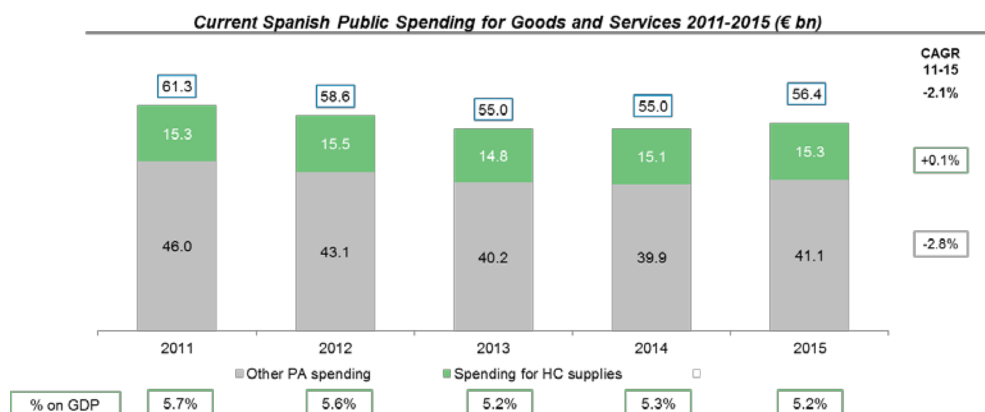


Source: Cerved; Intrum Justitia

Spain

The public spending for goods and services for 2015 amounts to €56.4 billion (equal to 5.2% of GDP), decreasing in comparison to previous years (CAGR 2011-2015: -2.1%), as a result of the government interventions carried out since 2012 (*Plan de Pago*) to reduce public sector debt and payment times (*Source*: *Actualización del Programa de Estabilidad 2016-2019*).

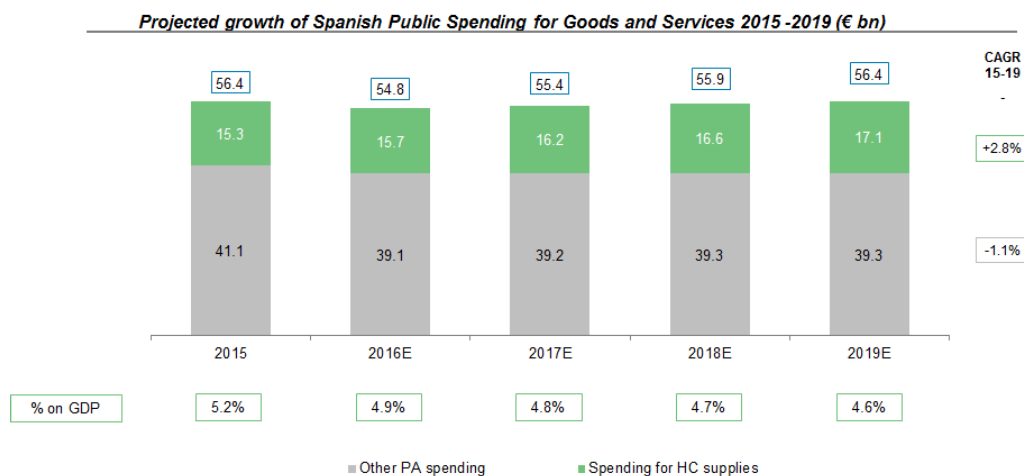
The public spending for goods and services incurred by the Spanish national healthcare system amounted to €15.3 billion in 2015 (27% of total expenses for intermediate consumption) with a consistently upward trend during the five-year interval from 2011 through 2015 (0.1% CAGR) (*Source*: *Ministerio de Hacienda y Administraciones Públicas*).



Source: Ministerio de Hacienda y Administraciones Públicas and Actualización del Programa de Estabilidad 2016—2019—Reino De España

For the period 2016-2019 stability in public spending in goods and services (0.0% CAGR for the 2015-2019 period), as a result of the modernization and streamlining of the public administration entrusted to the CORA (*Comisión para la Reforma de la Administración*, or Commission for reforming the administration), that will lead to a decrease in the impact of such expenditure component on GDP (from 5.2% in 2015 to 4.6% in 2019) (*Source: Actualización del Programa de Estabilidad 2016-2019*).

The streamlining process of the public administration has not affected the offer of services or basic performances of the administration, thereby achieving its aim at reducing unnecessary operational costs. This reform is gradually extending its territorial scope and its effects, seen through the local reform approved in December 2013 and the reform of the autonomous communities ("**CCAA**"), including, in part, healthcare and medical expenditures, education expenditures and expenditures for the streamlining of public companies. In this respect, national healthcare spending for goods and services is expected to increase (2.8% CAGR increase for 2015-2019), with an estimated value of the expenditures for goods and services of €17.1 billion in 2019 (*Source: Comisión para la Reforma de la Administración 2013*).



Source: Ministerio de Sanidad, Servicios Sociales e Igualdad and Actualización del Programa de Estabilidad 2016—2019—Reino De España, IMF World Economic Outlook April 2016

Since 2012, the Spanish government began to adopt extraordinary structural measures to reduce the indebtedness of the public sector and the delays typically attendant to payment procedures (as of 31 December 2015 the sovereign debt of the Spanish government amounted to €1,073 billion (*Source:* IMF, World Economic Outlook, April 2016)). The main measures that were implemented include, *inter alia*:

- The Payment Plan (*Plan de Pago*): a plan addressed to the CCAA and local administrations, developed from 2012 to February 2014, consisting in the injection of €41.8 billion of liquidity into the system and a procedure for processing payments directly to the suppliers.

- The Autonomous Liquidity Fund (*Fondo de Liquidez Autonómico*) ("**FLA**") which, since 2015, is a primary financing fund for the CCAA together with the Financial Facility Fund (*Fondo de Facilidad Financiera*) ("**FFF**") and the Social Fund (*Fondo Social*) (the "**Social Fund**"). Payments are made directly to the suppliers on a monthly basis. The total amount of FLA funds from 2012 to 2015 amounted to €85.6 billion, €100 billion including the funds allocated to the FFF and the Social Fund in 2016

Following the adoption of such measures, the official DSO was significantly reduced, dropping to 100 days at the end of 2015 compared to approximately 160 days in previous years before the full implementation of the extraordinary reform measures passed by the Ministry of Finance had occurred. In relation to the Health segment, the official DSO was 148 days. At the end of 2016, DSO recorded a further reduction to 72 days (*Source: ATA - Federación Nacional de Asociaciones de Trabajadores Autónomos*).

At the end of 2015, the trade payables in Spain amounted to €14.7 billion, equal to 1.4% of GDP, (of which €2.1 billion consist of trade payables purchased by financial intermediaries according to non-recourse arrangements) significantly decreased in recent years from 3.3% of the GDP in 2011 and 2% in 2012-2013 (*Source: Cuentas Financieras—Banco de Espana*).

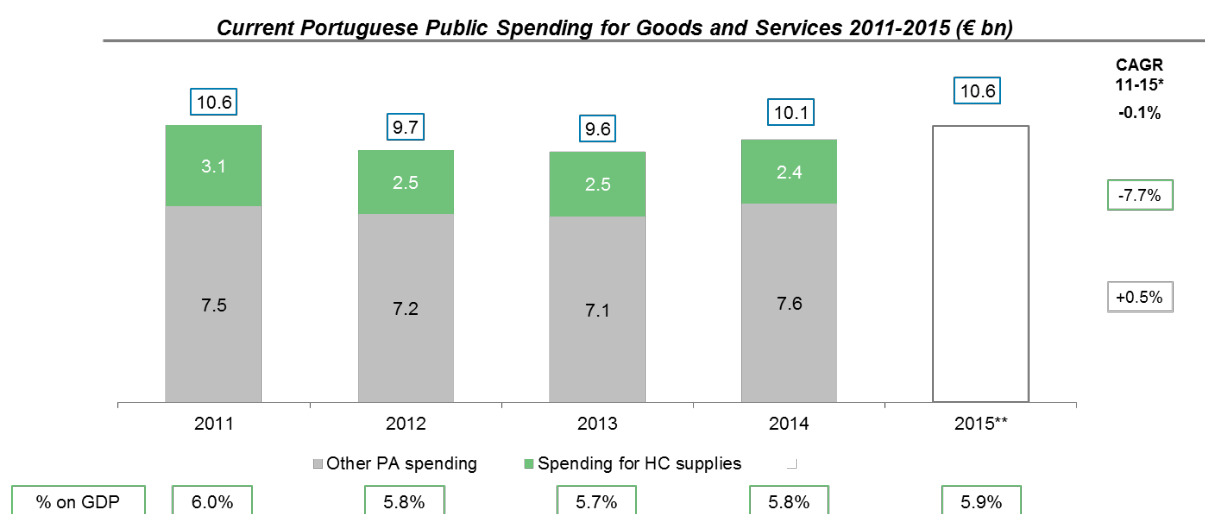
Portugal

In Portugal, public spending is undergoing a drastic reduction as a result of the complex recovery plan implemented by the government since 2011. In the period from 2010 through 2013, total public spending declined from €93.2 billion to €85.7 billion (-8%), with an increase to €86.6 billion in 2015 (as of 31 December 2015 the sovereign debt of the Portuguese government amounted to €231 billion (*Source*: IMF, World Economic Outlook, April 2016)).

The spending for goods and services declined by 10% to €9.6 billion from 2010 to 2013 and later increased to €10.6 billion in 2015 (accounting for 5.9% of GDP).

As of 2014, the spending for goods and services relating to the central government administrations account for 72% (€7.2 billion) of total expenses and 65% (€5.0 billion), excluding healthcare expenditures.

In 2015, Portuguese public healthcare spending amounted to €10.5 billion, having declined sharply (-3.2% CAGR) in the course of the five years from 2010 through 2014; in particular, the most significant decrease occurred in the segment of spending for goods and services, which dropped from €3.1 billion in 2011 to €2.4 billion in 2014, a -7.7% CAGR reduction over such period. In Portugal, the official payment times of the health sector, although declining in the past years, are significantly higher than in Italy and Spain (385 days as of December 2015).



*Source: Instituto Nacional de Estatistica—Portugal * CAGR 2011—15 for the total, CAGR 2011-2014 for the PA e HC breakdowns **for 2015 PA and HC breakdowns are not available*

At the end of 2015 trade payables in Portugal amounted to €2.4 billion, representing 1.3% of the GDP. Similar to what occurred in Italy and Spain, such amount is significantly decreasing compared to the maximum levels registered in previous years (3.5% in 2011 and 2012 and 2.0% in 2014) (*Source: Eurostat*).

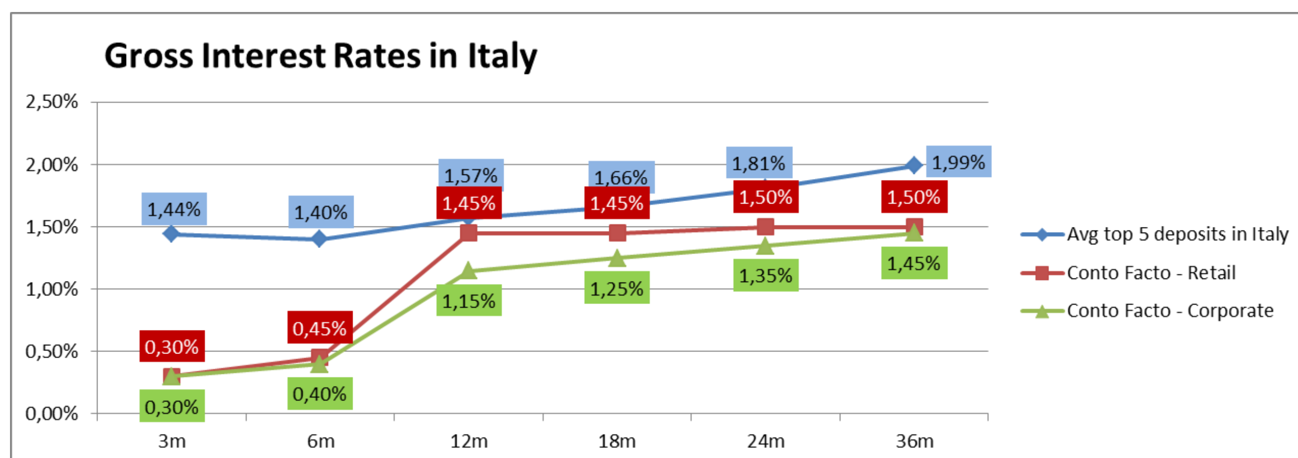
"*Conto Facto*" and online collection market

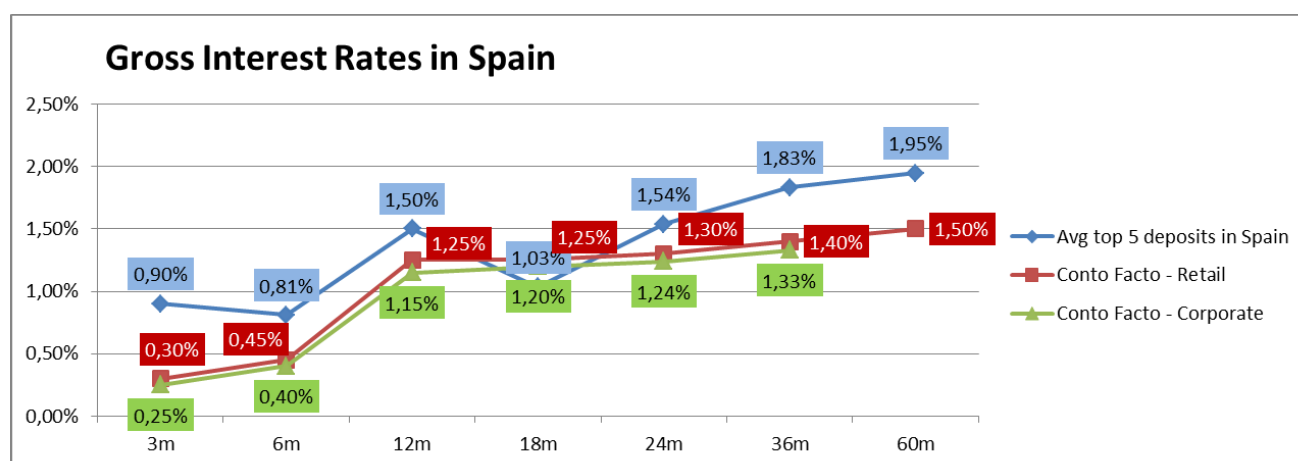
In September 2014, in order to secure new sources of funding, the Issuer launched an online term deposit account in the Italian market, "*Conto Facto*", mainly targeted at retail customers and businesses. In May 2015, *Conto Facto Plus* was added to the range of offered services. In August 2015, the Spanish branch of Banca Farmafactoring launched in the Spanish market a similar online term deposit account called "*Cuenta Facto*". See "*Description of the Issuer—Our History and Development—History—First Developments*".

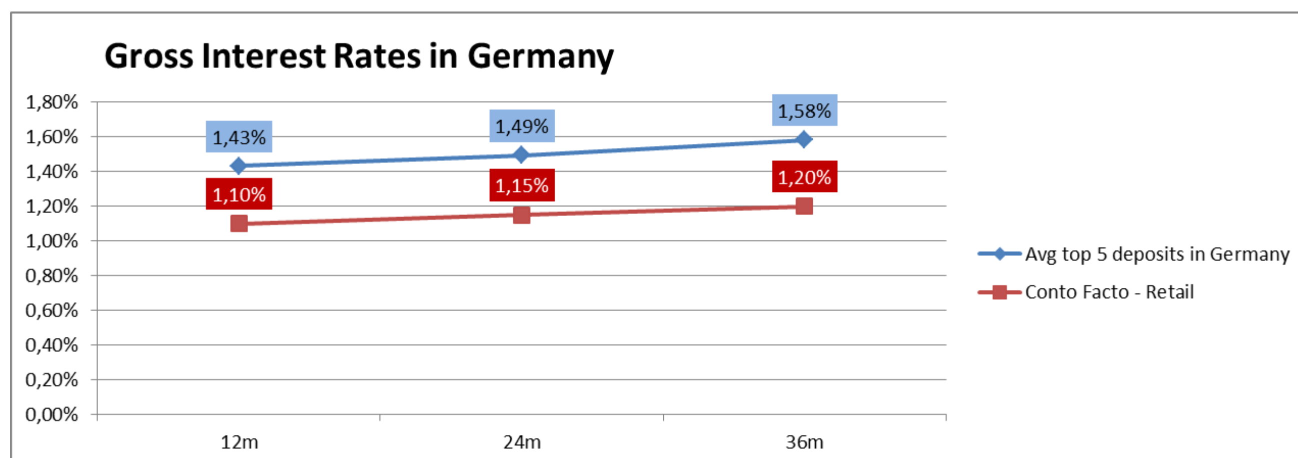
In June 2016, the Spanish branch of Banca Farmafactoring, operating under the freedom to provide services, launched similar online term deposit accounts also in Germany through the online platform *Welstparen.de*. The terms of the online deposits offered to customers in Germany are limited to 12 months, 24 months and 36 months.

In Italy, the use of online bank accounts reached a size of more than 16 million active users per month, representing 57% of the Italian internet user base. The 16 million online account holders own about 21 million accounts, 90% focus on 19 banking groups. Among the various banking products, the term deposit account is one of the most widespread, accounting for about 5 million users (*Source: CheBanca! Digital banking index Italy, March 2015*).

At the end of 2016, the average market interest rate applied to term deposit accounts results to be almost stable compared to 2015, due to a reduced need for liquidity compared to 2012 (*Source: Confrontaconti*). The tables below reflect the average interest rates on term deposit accounts in Italy, Spain and Germany as of December 2016.







Source: Italy: Confrontaconti (temporary promotional offers of three operators are included); Spain: Tucapital.es Germany: Raisin

Competition

Overview of Competition in Italy

In the aggregate, the Italian factoring market is highly concentrated around three major generalist operators belonging to large banking groups. These operators (Mediocredito, Unicredit Factoring and Ifitalia) account for approximately 60% of turnover as of 2016.

However, the market is characterized by the presence of numerous operators with differentiated business models, both in terms of approach to business development, according to whether they belong to or depend on banking or industrial groups (captive and/or independent operators), and of the degree of specialization in terms of products, clients and markets served (generalist versus specialized operators).

Three homogeneous categories of operators can be distinguished:

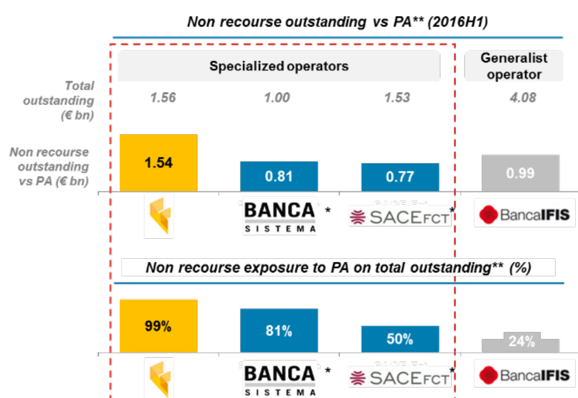
- Operators controlled by banking/financial groups (*e.g.,* Unicredit Factoring, Mediocredito, Ifitalia, SACE Fct);
- Operators controlled by industrial groups (*e.g.,* GE Capital, Fidis Finance, Serfactoring); and
- Independent operators (*e.g.,* Banca Farmafactoring, Banca Sistema, Banca IFIS).

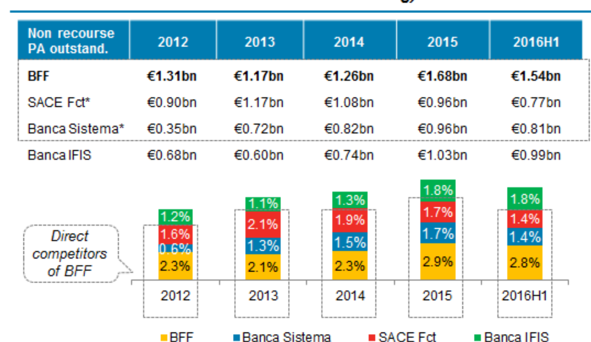
In the Italian market there is a dominant presence of operators acting as "generalists", which manage and purchase receivables claimed by their clients, regardless of the industry of the transferred debtor. On the other hand, other operators are "specialized" in relation to the type of industry in which their clients and transferred debtors operate. Our company is an example of the "specialized" approach, namely with respect to public administrations and in particular the health care industry.

In Italy, our direct competitors are thus represented by operators specialized in managing and purchasing receivables from the public administration, where SACE Fct and Banca Sistema (listed on the Italian Stock Exchange during 2015) are the most directly comparable peers, in terms of size and reference model.

Among generalist independent operators (*i.e.* with more diversified operations in terms of products, services and markets served), Banca IFIS is a listed factoring company operating in the segment of receivables from the Italian national healthcare system and presenting a mix of volumes not dissimilar to that of the large operators belonging to the main banking groups. In recent years, these operators have experienced business volumes growth similar to ours, being able to gain and maintain their competitive position.

The analysis conducted on the data derived from the most recent available financial statements of the top 20 operators in the Italian market has also shown that the companies specialized in the segment of public administration and/or with business models as independent operators (*i.e.* us, Banca Sistema and SACE Fct) have better profitability indicators than the industry average, mainly as a result of a higher pricing level, compared to the capital absorption, and a lower cost of risk in the operating segment.





Non recourse PA outstand.	2012	2013	2014	2015	2016H1
BFF	€1.31bn	€1.17bn	€1.26bn	€1.68bn	€1.54bn
SACE Fct*	€0.90bn	€1.17bn	€1.08bn	€0.96bn	€0.77bn
Banca Sistema*	€0.35bn	€0.72bn	€0.82bn	€0.96bn	€0.81bn
Banca IFIS	€0.68bn	€0.60bn	€0.74bn	€1.03bn	€0.99bn

*for SACE and Banca Sistema values also include recourse outstanding; for SACE the share of "exposure to PA" (equal to 50%) in the 1H2016 refers to December 2015
** Public sector owned companies excluded

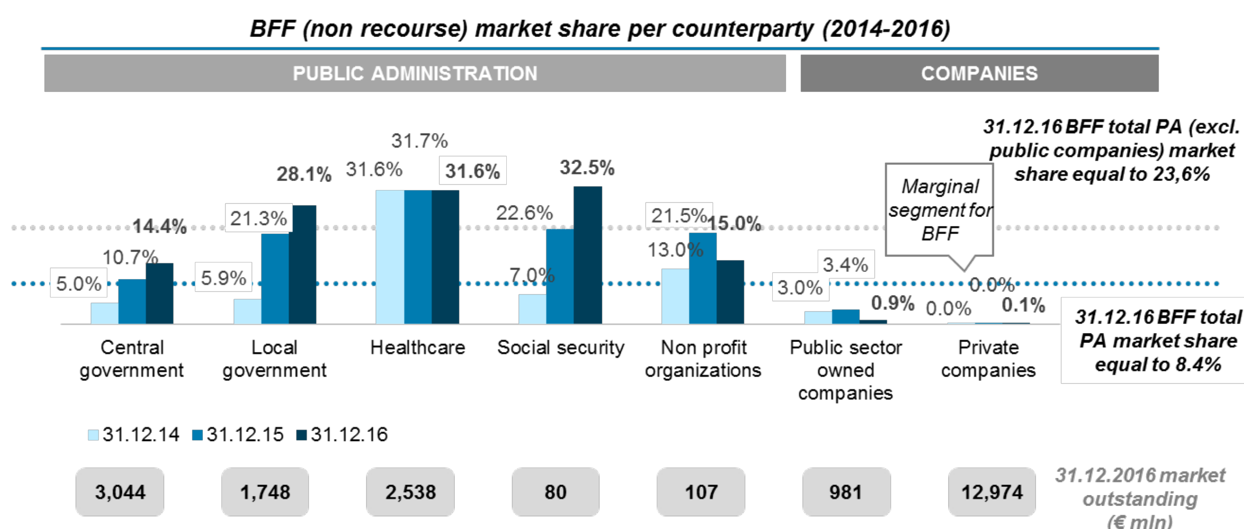
Source: Assifact, Companies' Annual Reports and company internal data

Our market share in Italy has grown over the course of the past five years from 2.3% (€1.3 billion) in 2012 to 2.9% (€1.8 billion) in 2016 (calculated based on stock). In terms of turnover, we purchased receivables in Italy for €2.2 billion in 2014 and €2.5 billion in 2015, increasing to €2.6 billion in 2016, corresponding to a market share of 1.3% as of 31 December 2016. This market share is in turn defined by its positioning in a niche market, the public administration segment, which is characterized by a lower turnover ratio in its receivables portfolio. Furthermore, also the receivables that we manage have to be taken into account together with the volumes above: such receivables, which represent a further market share of receivables that other entities operating on the market cannot access, amount to a total in Italy of €2.9 billion in 2014, €3.3 billion in 2015 and €2.9 billion in 2016.

We have a market share of 8.4% of the total of the stock of non-recourse receivables in Italy to the end of 2016, a figure that reaches approximately 23.6% considering the public administration market net of public enterprises, up from 21.3% in 2015.

We also increased our presence in the central administrations (market share of 14.4% in 2016 compared to 10.7% in the previous year, amounting to an increase of €139 million in terms of outstanding receivables) and local entities segments (market share of 28.1% in 2016 compared to 21.3% in the previous year, corresponding to an increase of €51 million in terms of outstanding receivables). Furthermore, with respect to the health segment, we achieved a market share equal to 31.6% as of December 2016.

Overall, our exposure to local governments (including the Italian national health care system bodies), amounted to €260 million as of 31 December 2016, representing 70% of the total outstanding receivables.



Source: Assifact and company internal data

Among our most direct competitors, in recent years SACE Fct reduced its share in terms of stock of receivables held towards the public administration (from 2.1% in 2013 to 1.4% as of June 2016), having focused on its business in the private sector (more than 50% of the turnover generated in 2015), while Banca Sistema, which entered the market in 2011, reached a market share of 1.4% (decreasing from 1.7% as of December 2015).

The volumes recorded by operators in the market have been affected by the introduction of the Split Payment Mechanism, through the 2015 Italian Stability Law, causing the purchase of the suppliers' invoices for the factor. See "*Risk Factors—Risks Related to Our Industry— The introduction of the so-called "split payment" of VAT for transactions involving public bodies could be extended and could impact the way we operate our business*" and "*Supervision and Regulation—Italy—Split-payment for VAT related to transactions with public entities*". The above invoices will be collected net of VAT, for an amount lower than the average rate. For us, the average rate amounted approximately to 15% in 2015.

Notwithstanding the abovementioned change, we expanded our range of offered services to the purchase of VAT receivables and other tax receivables held by businesses against the competent tax authorities. In 2016, tax receivables (*i.e*. VAT receivables) purchased by Banca Farmafactoring amounted to €135 million. Among our most direct comparables, VAT receivables purchased by Banca Sistema during 2016 amounted to 10% of total outstanding volumes, corresponding to a stock approximately valued at €100 million as of 31 December 2016. Banca IFIS purchases tax receivables through its subsidiary Fast Finance. Banca IFIS's tax receivable stock purchased as of 30 September 2016 amounted to €114 million.

Overview of Competition in Spain

In 2016, the Spanish factoring market was highly concentrated, with the top three operators (subsidiaries or divisions of the largest banking groups) accounting for 63% of all factoring receivables acquired in 2016 (66% in 2015), increasing to 67% if the confirming business, which constitutes approximately half of the total volume in the market, is included in the calculation.

In 2015, the Group increased its share of business in Spain, acquiring receivables amounting to €450 million in 2015, compared to €316 million in 2014. In 2016, factoring market recorded a general contraction in public sector volumes, due to recent Spanish government interventions. The Group's market share is approximately 1.5% of the non-recourse factoring business created in Spain in 2015, and is equal to approximately 6.9%, of the non-recourse turnover generated towards the public administration, which represents the specific business segment whereby the Group mainly operates. In 2016 the Group's market share in non-recourse segment went down to 1.0% in 2016 corresponding to €347 million of purchased volumes, for the above-mentioned reasons and for the inclusion in the FAE association of new members recording significant volumes. Considering non-recourse turnover towards the public administration only, market share in 2016 slightly reduced to 5.5% (*Source: FAE and Issuer internal data*).

In Spain, the Group's most direct competitor is IOS Finance E.F.C, S.A. ("**IOS Finance**"), which acts as the only other independent operator specialized in the purchase of non-recourse factoring and in the management of the receivables held against the public healthcare system.

In addition, Multigestion Iberia is active in Spain and Portugal, managing receivables held against the healthcare system. Lastly, companies such as A&M Consultores and multinational Instrum Justitia are active in the same countries where they offer credit management services also to public entities.

Overview of Competition in Portugal

Currently, there are no significant specialized operators in our reference market in Portugal.

The country's main operators are subsidiaries or internal divisions of the main banking groups (Banco BPI, Santander Totta, BNP Paribas Factor and Popular Factoring).

Magellan's relevant market and competitive position

On 3 June 2016, we acquired the Magellan Group through our Polish subsidiary Mediona. See "*Description of the Issuer—Acquisition of Magellan*". The parent company of the Magellan Group is Magellan S.A., a Polish company offering financial products and services to the operators of the healthcare market and to local government bodies in Poland. The Magellan Group has a significant presence in Slovakia and, to a lesser extent, in Czech Republic and Spain where activities were initially launched in 2015. The Group is specialized in (i) financing activities of working capital/operating capital for public and healthcare suppliers; (ii) financing of present or future receivables; and (iii) funding of investments.

Financial services market for healthcare and local bodies

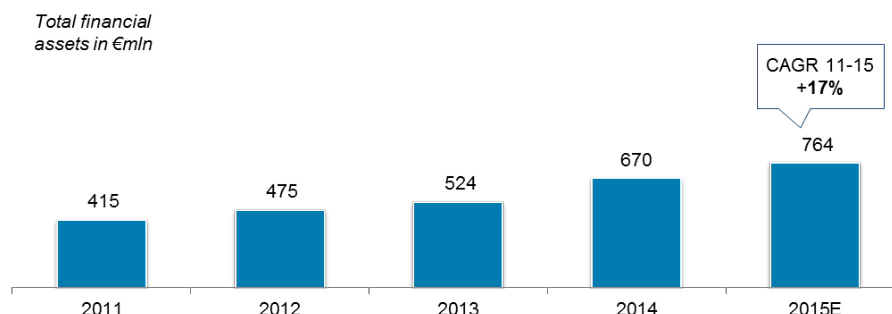
Magellan is considered a player in the alternative financing market ("**Alternative Financing Market**"), a market defined by analysis made by PwC, also known as the financial services market based on non-banking operators. The Alternative Financing Market is composed of funding granted to healthcare and local government bodies from non-banking institutions. The Alternative Financing Market is an additional resource in relation to the traditional banking market, aimed at fulfilling financial needs in connection with current costs as well as investment costs incurred by hospitals and local bodies.

In Poland, the Alternative Financing Market amounted to approximately €857 million at the end of 2015, an increase of 12% compared to €767 million in 2014. In addition, in 2015, 89% of the total volume was represented by exposures to healthcare bodies, equal to €764 million with an increase of 14% compared to the €670 million of 2014, and the remaining 11% (equal to €93 million) was composed of funding to local government bodies in 2015.

The healthcare segment amounted to €764 million in 2015, with a CAGR for 2011-2015 of 17%. In the same year, the market was composed of about 57% (equal to €435 million) for working capital funding, about 25% (equal to €193million) for investments and about 18% (equal to €136 million) for suppliers of healthcare bodies.

In terms of future developments, a series of drivers may allow for market growth in the funding of healthcare entities. In fact, on the side of the demand, the Issuer believes that a worsening of the financial situation of healthcare entities may occur due to an increase in the salaries of hospital personnel as provided under the relevant framework of rules, accompanied by restrictions on the national healthcare fund budget, as well as a greater acceptance of hospitals using alternative operators due to an improvement of their reputation and an increased supplier demand due to the deterioration of the financial situation of health facilities. On the side of the supply, a reduction of the funding margins may lead to our factoring service being more sustainable and appealing. Furthermore, the segment benefits form a limited competition concerning other banking operators thanks to technical specifics and more rigid credit policies.

Polish Alternative financing market vs Hospitals (2011 – 2015)

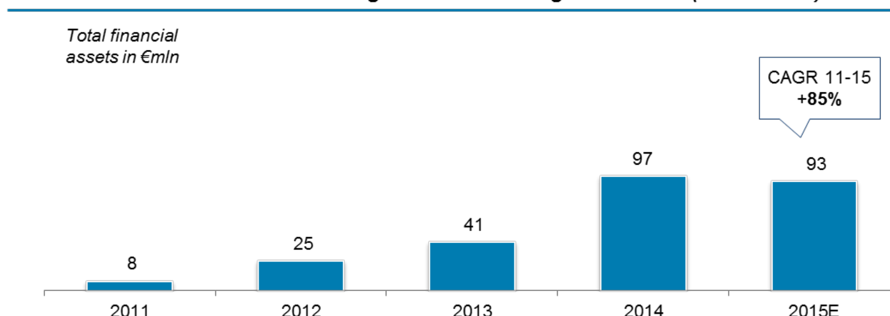


Source: PwC analysis on companies' Annual Reports

In Poland, the Alternative Financing Market for local government bodies, has only two main operators (Magellan and MW Trade). In fact, due to the limited number of potential customers and the significant coverage by the traditional banking system, other operators have avoided entering this sector. The segment recorded a strong increase in the last years (CAGR 2011-2015 amounted to 85%), related to a rapid growth achieved by both operators of €93 million in 2015. About 70% (equal to €65 million) of funding is addressed to local bodies and the other 30% (equal to €28 million) to suppliers of local bodies.

The alternative financing market for local bodies is expected to increase, although, it could be affected by regional auditor offices, the latter consisting in State entities which have the function of monitoring and controlling local entities in the fields of financial management and public supply. This is a material risk for local entities and a limited one for suppliers.

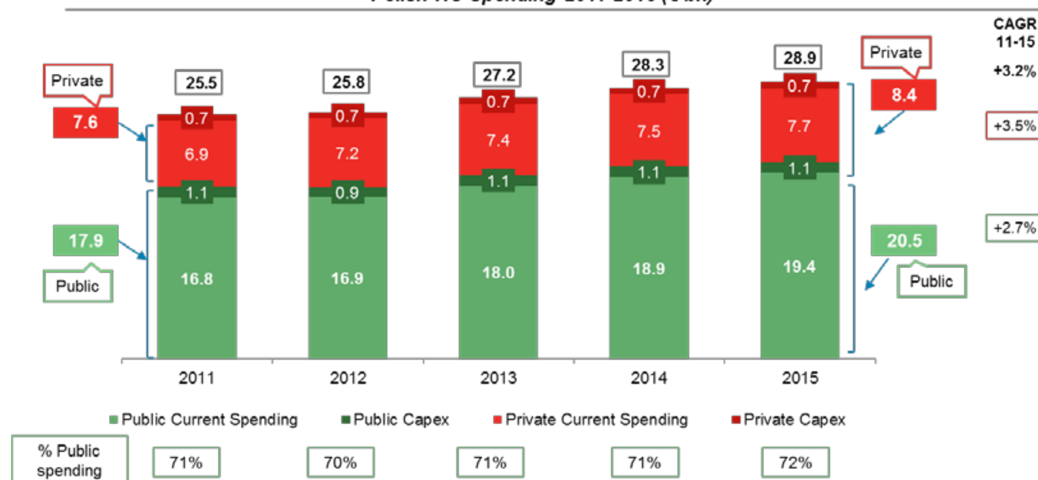
As a consequence of the new 2014-20 European Union budget, positive impacts for market development could arise from an increase in the demand of bridge and alternative funding. Other elements include the increase in public spending in line with the electoral process and the higher deficit to be funded, which is due to an insufficient level of support in relation to State government and changes in tax law. However, the development of this segment could be hindered by the implementation of a more restrictive regulation towards alternative operators and by negative perception due to a lower offer of interest rates from competing banks.



Source: PwC analysis on companies' Annual Reports

Spending of healthcare and of public local government bodies

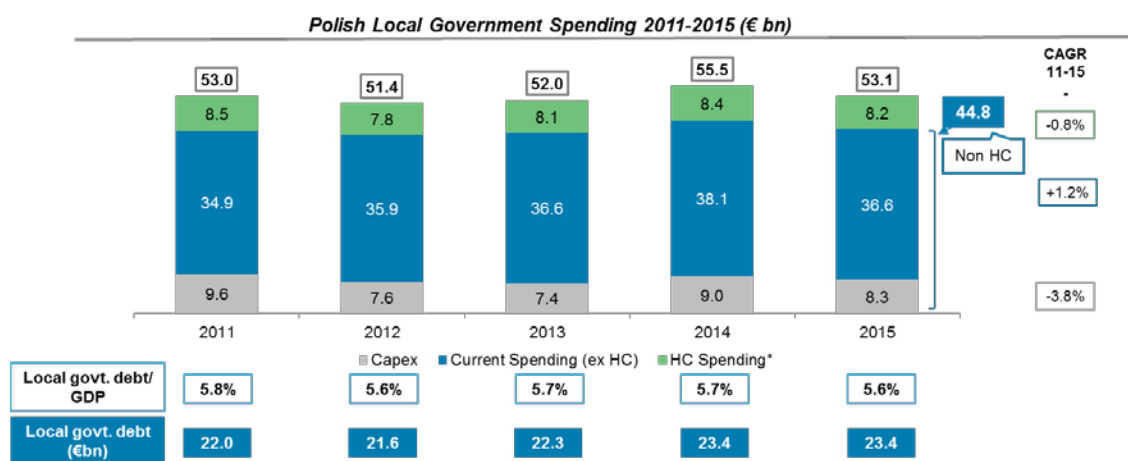
In 2015 Polish healthcare spending increased to approximately €28.9 billion, compared to 2011 (€25.5 billion, CAGR 3.2%). The public component of public healthcare represents 72% of the total, even if private spending is expected to guide the growth trend in the next five years. (*Source: NHF; Ministry of Health and PwC analysis*).



Source: OECD

Public spending for goods, services and investments has been generally stable in the local bodies (CAGR from 2011 to 2015 amounting to 0%), reaching €53.1 billion in 2015, of which €44.8 billion not attributable to public spending. In particular, the current spending component reached €36.6 billion in 2015 (CAGR from 2011 to 2015 amounting to 1.2%), whereas during the period between 2011 and 2013 the investment component recorded a significant decrease (from €9.6 billion to €7.4 billion). In 2015, a recovery of €8.3 billion was recorded.

Overall, public spending carried out at a local administration level represents more than 30% of total public spending. In 2015, the level of indebtedness of local bodies amounted to 5.6% of GDP (equal to €23.4 billion), in line with a stable trend for Polish GDP.



*Source: OECD; *amount of HC spending paid by Local government*

Magellan operates also in Slovakia and Czech Republic through its subsidiaries, offering financing the healthcare system. In Czech Republic and Slovakia, the markets of healthcare spending have limited relevance amounting to €12.6 billion and €5.6 billion, respectively, in 2015. In the Czech Republic, 85% of healthcare spending is supported by the State , while in Slovakia state supported healthcare spending is strongly growing in the last years (approximately 78% in 2015, increasing by 7% from 2011) (*Source: OECD*).

In other countries Magellan has replicated its business model, establishing a significant presence in Slovakia over recent years, as well as, to a lesser extent, in the Czech Republic (where Magellan is one of the few specialized alternative financing players) and Spain. In Slovakia Magellan is the sole specialized market player and has been successful in building relationships with 36 health facilities, which currently represent approximately 50% of the main facilities that supply healthcare services in Slovakia (*Source:* Analysis of the Issuer).

Magellan competitive positioning

In Poland, Magellan competes with a limited number of operators in the Alternative Financing Market. It holds a strong presence in the healthcare segment, in which the competitors are MW Trade and Siemens, followed by Nettle and EFM. With regard to the segment of local bodies, traditional banking operators have a significant presence, while the Alternative Financing Market is in an early stage of development and Magellan and MW Trade have the only presence in this segment.

Overview of credit quality indicators

The following table shows the comparison of our credit quality indicators and average system data as of 31 December 2015, for the “minor banks” category, which was the size category in which we were included at that date. Since 30 June 2016, the Bank of Italy has changed the definitions for the categories into which Italian banks are subdivided with the document ‘Financial Stability Report no. 2—2016’, from which the average data for the banking system is drawn, with reference to 30 June 2016. As of 31 December 2016, we have been classified as a “less significant bank”.

	As of 31 December 2015(*)	
	Group	**Average system data (minor banks)** (1)
	(in percentage)	
Credit quality indicators		
Gross impaired loans / Gross receivables	3.1%	18.7%
coverage ratio of impaired loans	25.2%	40.8%
Gross NPLs / Gross receivables	0.9%	10.5%
Coverage ratio of non-performing loans	85.9%	55.3%
Doubtful loans / Gross receivables	0.0%	8.3% (2)
Coverage ratio of doubtful loans	-	22.5%
Gross past due loans / Gross receivables	2.2%	n.d. (3)
Coverage ratio of past due loans	0.2%	n.d. (3)

(*) Currently, the data as of 31 December 2016 is not available.

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(1) Source: Bank of Italy — "Financial Stability Report No. 2—2016" for 2015. The figures are gross of the corresponding write-downs. The percentage of coverage is given by the amount of value adjustments in relation to the corresponding gross exposure. The category "minor banks" includes banks belonging to groups or independent with total assets of less than €3.6 billion. The category "small banks" includes banks belonging to groups or independent with total assets between €3.6 billion and €21.5 billion. The category 'less significant banks', introduced in the "Financial Stability Report no. 2—2016", includes banks monitored by the Bank of Italy, in strict collaboration with the ECB.

(2) As of 31 December 2015, the data published in the Bank of Italy "Financial Stability Report No.1—2016", concerning likely non-performances, relates to the aggregate "other than impaired loans", which includes both the aggregate unlikely to pay and overdue and/or non-performance exposures.

(3) System data relating to past due loans as of 31 December 2015 are not available, since the "Financial Stability Report No.1—2016" of the Bank of Italy relayed the system data only in relation to "impairments" and "impairments other than non—performances".

(4) The data refers to the previous definition and classification of non-performing loans which included the category of "Substandard" which was removed in 2015. Therefore, the "probable defaults" should read as "doubtful or restructured", in the above classification of non-performing loans, while the item "past due loans" includes the "overdue" item as set out in the previous classification. The system data relating to the relationship between "gross probable failures" and "gross receivables" is therefore equal to the sum of "problem loans" and "restructured" in the report, while the percentage of coverage of likely defaults is equal to the average of the coverage rates of "problem loans" and "restructured" in the report.

SELECTED FINANCIAL INFORMATION OF THE ISSUER

The following tables contain consolidated balance sheet and income statement information of the Group as at and for the years ended 31 December 2016 and 2015, derived from the Issuer's Consolidated Financial Statements.

Given that the 2016 Standalone Financial Statements of the Issuer have not yet been approved by the shareholders of the Issuer, it cannot be excluded that the figures to be included in the 2016 Financial Statements of the Group may differ from the corresponding figures in the 2016 Standalone Financial Statements of the Issuer on the basis of possible adjustments or integrations of such figures or the relevant information which may be deemed necessary by the relevant annual shareholders' meeting in charge for the approval of the 2016 Standalone Financial Statements of the Issuer and related reports.

This information should be read in conjunction with, and is qualified in its entirety by reference to the Issuer's consolidated annual financial statements as at and for the years ended 31 December 2016 and 2015, together with the accompanying notes and auditors' reports, all of which are incorporated by reference in this Prospectus. See "*Documents Incorporated by Reference*".

All of the above financial statements are prepared in accordance with IFRS and have been audited by the Issuer's independent auditors, PricewaterhouseCoopers S.p.A. The tables below are translated into English from the original Italian.

	As of 31 December	
Consolidated income statement	**2016[1]**	**2015**
Interest income and similar revenues	190,225	161,946
Interest and similar expenses	(31,020)	(28,898)
Net interest margin	159,205	**133,048**
Fee and commission income	7,833	8,389
Fee and commission expenses	(4,478)	(446)
Net Fees and Commissions	3,355	**7,943**
Dividends and similar income	60	-
Gains/losses on trading	682	46
Fair value adjustments in hedge accounting	(1)	(23)
Gains /(losses) on disposals/repurchases	706	872
Operating income	**164,007**	**141,886**
Impairment losses/reversals	(2,244)	(1,126)
Net profit from financial activities	**161,763**	**140,760**
Net profit from financial and insurance activities	**161,763**	**140,760**
Administrative Expenses		
of which personnel costs	(24,924)	(18,476)
of which other administrative expenses	(38,718)	(27,091)
Net provisions for risks and charges	(2,075)	(879)
Net adjustments to/writebacks on property, plant and equipment	(1,282)	(1,115)
Net adjustments to/writebacks on intangible assets	(1,334)	(1,023)
Other operating income/expenses	5,704	4,144
Operating costs	**(62,629)**	**(44,440)**
Profit before tax from continuing operations	**99,134**	**96,320**
Income taxes on profit from continuing operations	(26,997)	(27,529)
Profit after tax from continuing operations	**72,137**	**68,791**
Profit for the year	**72,137**	**68,791**
Profit for the year attributable to owners of the parent	**72,137**	**68,791**
Profit for the year a*djusted*[2]	**83,620**	**72,310**

(1) Contains consolidated results from Magellan from June 1, 2016 through end of period.

(2) The following table shows the adjusted profit for the period as determined by the Issuer's management taking into account the effects on the Group's results arising from both costs and the non-recurring income in the income statement for the year ended 31 December 2016 and 2015 as described above.

	Year ended 31 December	
	2016	2015
	(in € thousands)	
Profit for the year	72,137	68,791
Non-recurring costs[(a)]	13,951	4,048
Tax effect of recurring income[(b)]	(4,114)	(1,256)
Extraordinary contributions to Resolution Fund[(a)]	2,179	1,101
Tax effect of contributions to Resolution Fund [(c)]	(661)	(374)
Profit for the year a*djusted*[(b)]	**83,492**	**72,310**
Profit for the year of Magellan for 5 months (January 2016-May 2016)	**3,972**	**-**
Non-recurring costs of Magellan for 5 months (January 2016-May 2016)	**128**	**-**
Tax effect	**(24)**	**-**
Profit for the year adjusted combined	**87,569**	**-**

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(a) Of which €12,641 thousands for 2016 and €5,149 thousands for 2015 related to non-recurring administrative costs. Our profit and loss for the year closed on 31 December 2016 includes non-recurring costs for a total amount equal to €13,951 thousand, gross of the tax effect, related to: (i) the acquisition of Magellan for a total of €4,940 thousand; (ii) the costs of integrating Magellan, mainly relating to consultation services, equal to €967 thousand; (iii) the costs of the waiver connected to Magellan's delisting process equal to €3,963 thousand; (iv) other costs mainly related to the prepayments of certain liabilities of Magellan amounting to €576 thousand and (v) to the process concerning the possible initial public offering of our shares, for an amount equal to €3,505 thousand. The profit and loss for the year closed on 31 December 2016 also includes the extraordinary contributions to the Resolution Fund equal to €2,179 thousand. Furthermore, the profit and loss for 2016 includes €1.4 million relating to the financial expenses incurred due to the acquisition of Magellan. The profit and loss for 2015 includes non-recurring costs for a total of €4,048 thousand, gross of the tax effect relating to our possible public listing (which was later brought to a halt) equal to € 1,636 thousand, to costs relating to the analysis of possible acquisitions equal to €1,821 thousand and to costs relating to increased indirect taxes for €591 thousand. The profit and loss for 2015 includes extraordinary contributions to the Resolution Fund, equal to €1,101 thousand.

(b) Adjustment of tax liability on the basis of currently applicable tax regulations.

(c) The alternative performance measures represented are not identified as accounting measures under IFRS and therefore should not be considered alternative measures to those provided by the Issuer's financial statements for the evaluation of the Group.

The following table shows: (i) the adjusted aggregate profit and loss for the year the ended 31 December 2016, consisting in the sum of the twelve month-profit and loss of the Group (excluding Magellan) and the twelve month-profit and loss of Magellan, adjusted to not take into account non-recurring costs, (ii) the consolidated profit and loss of the Group for the year the ended 31 December 2016, consisting in the consolidation of the twelve month-profit and loss of the Group (excluding Magellan) and the seven month-profit and loss of Magellan, and (iii) consolidated profit and loss of the Group for the year ended 31 December 2015 (that does not include Magellan figures).

	As of 31 December		
	2016 adjusted (including Magellan for 12 months)	2016, (including Magellan for 7 months)	2015
		(in € thousands)	
Interest income and similar revenues	204,022	190,225	161,946
Interest and similar expenses	(37,142)	(31020)	(28,898)
Net interest margin	**166,880**	**159,205**	**133,048**
Net Fees and Commissions	**6,845**	**3,355**	**7,943**
Dividends and similar income	123	60	0
Gains/losses on trading	666	682	46
Fair value adjustments in hedge accounting	(1)	(1)	(23)
Gains /(losses) on disposals/repurchases	706	706	872
Operating income	**175,219**	**164,007**	**141,886**
Impairment losses/reversals	(2,678)	(2,244)	(1,126)
Administrative Expenses	(53,519)	(63,642)	(45,567)
Net provisions for risks and charges	**(2,076)**	**(2,075)**	**(879)**
Net adjustments to/write backs on property, plant and equipment and intangible assets	(2,729)	(2,616)	2,138
Other operating income/expenses	6,112	5,704	4,144
Profit before tax from continuing operations	**120,330**	**99,134**	**96,320**
Income taxes on profit from continuing operations	32,761	(26,997)	(27,529)
Profit for the year	**87,569**	**72,137**	**68,791**

The following table shows: i) the aggregate profit and loss for the six month period ended 30 June 2016, consisting in the sum of the six month-profit and loss of the Group (excluding Magellan) and the six month-profit and loss of Magellan, ii) the aggregate profit and loss for the three month period ended 30 September 2016, consisting in the sum of the three month-profit and loss of the Group (excluding Magellan) and the three month-profit and loss of Magellan, iii) the aggregate profit and loss for the three month period ended 31 December 2016, consisting in the sum of the three month-profit and loss of the Group (excluding Magellan) and the three month-profit and loss of Magellan, and iv) the aggregate profit and loss for the year ended 31 December 2016, consisting in the sum of the profit and loss of the Group (excluding Magellan) and the profit and loss of Magellan for the year ended 31 December 2016.

	Six-month ended 30 June 2016 (sum of Group and Magellan)	**three-month ended 30 September 2016 (sum of Group and Magellan)**	**three-month ended 31 December 2016 (sum of Group and Magellan)**	**Year ended 31 December 2016 (sum of Group and Magellan)**
		(in € thousands)		
Net interest margin	73.5	34	59.2	166.9
Net Fees and Commissions	3.4	(0.3)	0.6	3.4
Operating income	78.3	31.3	62.3	171.7
Impairment losses/reversals	0.3	(0.5)	(2.4)	(2.6)
Net profit from financial activities	78.6	30.8	59.8	169.1
Net profit from financial and insurance activities	78.6	30.8	59.8	169.2
Administrative costs	(31.6)	(15.6)	(19.2)	(66.3)
a) personnel costs	(12.5)	(6.1)	(7.7)	(26.3)
b) other administrative expenses	(19.1)	(9.5)	(11.5)	(40.0)
Operating costs	(32.3)	(15.6)	(17.3)	(65.0)
Profit before tax from continuing operations	46.3	15.3	42.5	104.1
Income taxes on profit from continuing operations	(14.0)	(2.6)	(11.4)	(28.0)
Profit for the year	**32.3**	**12.7**	**31.1**	**76.1**

The following tables set forth certain key balance sheet information for the indicated periods.

	As of 31 December	
	2016(*)	**2015**
Assets		
Cash and cash equivalents	149	160
Financial assets held for trading	244	-
Financial assets at *fair value*	3,401	-
Available-for-sale financial assets	385,280	429,438
Held-to-maturity financial assets	1,629,320	822,859
Due from banks	144,871	60,523
Due from customers	2,499,094	1,962,004
Hedging derivatives	529	-
Equity investments	302	-
Property, plant and equipment	12,988	12,666
Intangible assets	25,811	2,747
of which goodwill	22,146	-
Tax assets	25,870	28,052
a) current	21,451	25,112
b) deferred tax assets	4,419	2,940
of which respect to Law 214/2011	749	547
Other assets	7,137	3,106
Total Assets	**4,734,996**	**3,321,555**

(*) Contains consolidated results from Magellan.

	As of 31 December	
	2016(*)	2015
Equity and Liabilities		
Due to banks	634,807	688,081
Due to customers	2,996,142	1,726,683
Debt Securities issued	634,283	452,962
Financial liabilities held for trading	7	0
Hedging derivatives	176	0
Tax liabilities	73,659	70,583
a) current	24,130	23,805
b) deferred	49,529	46,778
Other liabilities	54,319	45,884
Provisions for employee severance indemnities	867	883
Provisions for risks and charges:	6,989	5,195
a) pensions and similar commitments	6,343	4,830
b) other provisions	646	365
Valuation reserves	4,495	4,184
Reserves	126,132	127,409
Share capital	130,983	130,900
Profit for the year	72,137	68,791
Total Equity and Liabilities	**4,734,996**	**3,321,555**

(*) Contains consolidated results from Magellan.

Economic, operating and financial indicators

The table below sets forth certain key economic, operating and financial indicators for the indicated periods.

	As of and for the year ended 31 December	
	2016	2015
	(in € thousands)	
Economic, operating and financial indicators		
ROE (%)(1)	27.6%	26.2%
ROE *adjusted* (%)	31.9%	27.5%
ROTE (%)(2)	23.4%	26.5%
ROTE *adjusted* (*combined*) (%)	37%	28%
Cost/income ratio *adjusted*	32%	30%
Cost/income ratio *adjusted (combined)*	32%	30%

(1) Ratio between net profit of the year and shareholders' equity, including net profit or loss for the year and net of the dividends paid.
(2) Calculated as the ratio between the "Profit for the year" and "Shareholders' equity (excluding profit for the year)", net of intangible assets.

Prudential Requirements

The table below sets forth our Own Funds and prudential requirements as of 31 December 2016 and 2015.

	As of 31 December	
	2016	**2015**
	(in € thousands, except percentages)	
Common Equity Tier 1 CET1 before prudential filters	261,139	262,012
Additional Tier 1 Capital (AT1)	-	-
Tier 2 Capital (T2)	-	0
Own Funds	**235,345**	**259,265**
Credit and counterparty risk	82,998	60,809
Credit valuation risk	76	-
Market risks:	-	-
a) Standardized approach	-	-
b) Internal models	-	-
c) Concentration risk	-	-
Operational risk:	-	-
a) Basic indicator approach	*29,775*	*24,457*
b) Standardized models	-	-
c) Advanced measurement approach	-	-
Total capital requirements	**112,849**	**85,266**
Risk-weighted assets (RWA)	1,410,612	1,065,819
RWA/total assets	29,8%	32%

The table below sets forth the Own Funds attributable to our Group and minority interest shareholders as of 31 December 2016 and 2015, under the Basel III framework.

	As of 31 December	
	2016	**2015**
Group Regulatory Capital Ratios		
Common Equity Tier 1/Risk-weighted assets (CET1 Capital Ratio)	16.7%	24.3%
Tier 1 Capital/ Risk-weighted assets (Tier 1 Capital Ratio)	16.7%	24.3%
Total Own Funds/ Risk-weighted assets (Total Capital Ratio)	16.7%	24.3%
Leverage ratio (Pilar III)	4.9%	6.1%
Risk-weighted assets (in €million)	1,410,612	1,065,819

DESCRIPTION OF THE ISSUER

Overview

Banca Farmafactoring S.p.A. ("**Banca Farmafactoring**", the "**Issuer**", "**us**" or "**we**") is specialized in the management, collection and non-recourse factoring of receivables due to third party suppliers primarily from the agencies of national healthcare systems and other public administration entities in Italy, Spain and Portugal (jointly the "**Southern European Markets**"), directly operated by the Issuer, and through the services provided for by our subsidiary Farmafactoring España S.A. ("**Farmafactoring España**"). Our traditional activities consist in: (i) credit collection management ("**Credit Collection Management**") and (ii) non-recourse factoring ("**Non-Recourse Factoring**") (jointly, the "**Traditional Activities**"). Following the acquisition of Magellan S.A. ("**Magellan**") in June 2016, we also offer a wide range of financial services (including factoring) in Poland, Slovakia and the Czech Republic (jointly the "**Eastern European Market**").

The following table set forth the main indicators of our volumes and the main ratios as of 31 December 2016 and 31 December 2015.

	As of 31 December 2016	**As of 31 December 2015**
	(in € millions, except percentages)	
Due from customers	2,499	1,962
Online deposits	822	417
Net profit for the year	72.1	68.8
Common Equity Tier 1/Risk weighted assets (CET1)	16.7%	24.3%

We have been operating in the Italian market since 1985, which is our primary market (approximately 75% of customer loans, generating 85.0% of our net interest margin for the year ended 31 December 2016). We are one of the leading operators in the Italian factoring market for non- recourse factoring of receivables towards the public administration with a market share in Italy of 23.6% as of 31 December 2016 (*Source*: *Company analysis on internal data*). In over thirty years of activity, we have become an important business partner for suppliers of the national healthcare system (including pharmaceutical, diagnostics and biomedical sectors) and the public administrations offering working capital solutions to address public payment delays in Italy. We have established and developed relationships with the largest debtors and creditors in the healthcare sector and more recently in the public administration, through which we have acquired an extensive knowledge of the market and have established full geographical coverage in Italy.

In 2011, to respond to the needs of certain multinational companies that already formed part of our client base in Italy, we started providing Credit Collection Management and Non-Recourse Factoring services in Spain through our subsidiary Farmafactoring España S.A. in respect of receivables due from the Spanish national healthcare system and the Spanish public administration (approximately 6% of customer loans, generating approximately 6% of our net interest margin for the year ended 31 December 2016). Since 2014, we have also provided Non-Recourse Factoring services in Portugal, under the freedom to provide services, in connection with receivables due from the Portuguese national healthcare system becoming the independent leaders in the Spanish and Portuguese markets (*Sources*: *FAE, Factor Chain International, Issuer estimates*).

Our Credit Collection Management business in Italy and Spain consists in the management of the recovery and collection of receivables mainly owed to suppliers of national healthcare systems and/or public administration entities ("**Suppliers**"), including the management of administrative issues and credit collection actions, both in court and out of court, and other ancillary services such as electronic invoicing and credit certification in Italy. Our income in this segment derives primarily from: (i) invoice loading fees and (ii) collection of commission. For the year ended 31 December 2016, we managed €2.9 billion in new receivables (primarily in Italy, with less than €6 million in Spain) and collected on €3.2 billion (primarily in Italy, with less than €18 million in Spain) under our Credit Collection Management business.

As part of our Non-Recourse Factoring business in Italy, Spain and Portugal, we purchase the principal amount and interest component (including late payment interest and ancillary income) of receivables mainly owed to Suppliers and we manage their collection on our behalf. The receivables we acquire are generally overdue and bear late payment interest, the amount of which is regulated by European Union law. Our income

in this segment derives primarily from: (i) maturity commission, and (ii) late payment interest. In 2015 we also expanded our Non-Recourse Factoring business to receivables due from the Italian tax authorities. For the year ended 31 December 2016, we purchased €3.002 million in new receivables (€2.606 million of which were in Italy, €346 million in Spain and €51 million in Portugal), collected on €2.995 million (€2.564 million of which was in Italy, €391 million in Spain, and less than €40 million in Portugal) and have €2.017 million outstanding under management under our Non-Recourse Factoring business.

In January 2013, we obtained a banking license in Italy, and in September 2014 we began offering a retail bank product with the launch of our "*Conto Facto*" online term deposit account in the Italian market. This initiative has brought many benefits, including a more balanced funding base and the expansion of our client base to retail and corporate clients. In February 2015, we received the Bank of Spain's authorization to open a branch in Spain and subsequently, in August 2015, we launched the "*Cuenta Facto*" online term deposit account in Spain, a similar product to our "*Conto Facto*" online term deposit account in Italy.

In March 2016, we filed with the Bank of Italy an application to offer banking services in Germany under the freedom to provide services and in June 2016 we launched the collection of terms deposits in Germany through the online platform *Welstparen.de*, using our Spanish branch under the freedom to provide services. On the German market, we provide the "*Cuenta Facto*" online term deposit account, which allows German customers to access term deposit accounts offered by foreign banks not established in Germany.

On 27 May 2016 the tender offer in respect of all the share capital of Magellan was finalised and on 30 June 2016 we completed the acquisition, through the vehicle Mediona spółka z ograniczoną odpowiedzialnością ("**Mediona**"), of the entire share capital of Magellan, the parent company of a group operating in Poland, Slovakia and the Czech Republic (and, at that time, to a marginal extent, through a branch of Magellan, in Spain) (the "**Magellan Group**") in the alternative financing market ("**AFM**"), which offers a diversified range of financial services (including non-recourse and with recourse factoring), aimed at guaranteeing access to short-term funding for suppliers of the healthcare sector and local authorities, as well as provide funding for parties operating in the healthcare and public authority sectors. The acquisition of Magellan and the group of companies it controls led to significant growth for the Group, which extended its activities to the Eastern European Market, at the same time diversifying the range of financial services offered (as of 31 December 2016 Poland represents approximately 14% of total customer loans, while the rest of the Eastern European Market represents approximately 3%). See "*—Acquisition of Magellan*" below.

For the year ended 31 December 2016, following the acquisition of Magellan (which was consolidated into our Group starting from the end of the Magellan Transaction for the following seven months) and not correcting for the one-off extraordinary costs, we recorded a net profit of €72.1 million, compared with €68.8 million for the same period of the previous financial year, which did not include the Magellan Group. Not taking the Magellan Group into consideration, the net profit of the Issuer and Farmafactoring España, for the year ended 31 December 2016, would have been €69.2 million, with an increase of €0.4 million compared with 31 December 2015.

We remain in compliance with the various capital requirements regulatory indicators imposed on us as a bank. Our Group's Own Funds, also including the Magellan Group, as of 31 December 2016, stood at €235.3 million and our Group's overall exposure to risks was considered adequate for our actual risk profile and capital resources available. With reference to the Banking Group, the supervisory capital coefficients, CET1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio, stand, respectively, at 16.7%, 16.7% and 16.7%, if we do not record the profit for the period under capital. Our Group's overall exposure to risks is compliant with the applicable legal framework.

In addition, as part of our strategy to consider organic expansion in other markets similar to those where we already operate, we are also considering starting operating in Greece in the near future. In February 2017, we filed with the Bank of Italy an application to offer factoring services in Greece under the freedom to provide services, while the beginning of operations is expected to occur not earlier than in the second quarter of 2017. See "*—Recent Developments—Expansion of our business in Greece*".

Our Key Competitive Strengths

We believe that our competitive strengths are represented by the following key factors:

Operating in large markets with attractive opportunities for growth and a highly stable regulatory framework

The Southern European Markets in which we operate and in which we have historically been active for our Traditional Activities is highly stable despite the austerity measures adopted by the government of the three countries in relation to the public expenditure. In these markets the public administration's expenditure on goods and services, which generate the credits that we manage and / or purchase, was equal to €133 billion in Italy (approximately 8.1% of GDP), €56 billion in Spain (5.2% of GDP) and €11 billion in Portugal (5.9% of GDP), for a total of approximately €200 billion in 2015 (*Source*: for Italy *the Ministry of Economy and Finance*, for Spain *the Ministerio de Hacienda y Administraciones Públicas e Actualización del Programa de Estabilidad 2016-2019 - Reino De España*, and for Portugal *the Instituto Nacional de Estatistica Portugal*) and is expected to remain stable in the foreseeable future.

The Southern European Markets present limited factoring penetration (i.e. factoring turnover in the public administration divided by total public administration current expenditure for goods and services) versus public expenditure, thus offering scope to specialized players to expand their activity by: (i) developing new business with potential customers which do not currently use factoring, and (ii) by managing and/or purchasing greater volumes of receivables from existing customers. (*Source*: *Assifact, DEF 2015* and *company accounts* for Italy; *AEF* and "*Actualizacion del Programa de Estabilidad 2015—2018*" for Spain; *the expansion is calculated as non-recourse turnover from the public administration / public spending on goods and services*).

Similarly the Eastern European markets in which we operate (Poland, Slovakia and the Czech Republic) are characterized by high historic growth rates in public expenditures and positive future prospects as well as a limited penetration of the AFM. Poland, which represents Magellan's main market, in the last four years recorded an average growth rate of approximately 3% in respect of healthcare expenditure (€29 billion in 2015, equal to approximately 7% of the GDP) and almost stable in respect of local authorities (€53 billion in 2015, equal to approximately 12% of the GDP). The growth in healthcare expenditure (aimed at filling the current gap with more developed economies), the demographic trend characterized by a steady increase in the average age of the population and any current and future regulatory changes could contribute to the expansion of these markets in the forthcoming years.

Historically, the countries in which we operate have endemic delays in payments due to public administration suppliers, due to, among other factors: (i) a mismatch between centralized tax collection and decentralized public spending allocation, (ii) administrative complexity, and (iii) commercial debt not classified as public debt which allows financial flexibility to governments.

Since 2000, the public administration receivables sector has been regulated by a stable and harmonized regulatory framework at the European level (Directive 2000/35/EC) through the introduction of the European regulation on combatting late payment in commercial transactions between companies or between companies and public administrations, ensuring uniformity and certainty by establishing principles and methods for the calculation of the maximum terms for supplier payment permitted for the public sector and late payment interest. Such regulatory framework was integrated in 2011(through Directive 2011/7/EU). As of the date of this Prospectus, the statutory interest rate is equal to 8% above the ECB's reference rate or, for EU countries which are not part of the Eurozone, the central bank of the relevant country. We believe that such EU regulatory framework helps strengthen our business by creating visibility on some of the key variables which impact our business model.

Leadership in factoring of receivables from public administration in Italy, Spain, Portugal and alternative healthcare financing market in Poland

In Italy we hold a leading position amongst specialized factoring market players (with a market share of approximately 23.6% as of 31 December 2016 in respect of the stock of non-recourse receivables towards the public administration, while, in Spain, we are the leader among the independent factors in the context of the purchase of receivables from Suppliers and among the top six factoring market players in relation to our total purchased volumes of non-recourse receivables towards the public administration and, in Portugal, we are the leader among the independent factors in the context of the purchase of receivables from suppliers of the national healthcare system (*Sources*: Assifact, FAE, Factor Chain International and Issuer estimates as of 31 December 2016).

Following the acquisition of Magellan, we are market leader in financial services for healthcare entities in Poland where we are also active in the sector of alternative financing solutions for the hospitals, which in the past three years recorded a significant growth and where we believe we are best positioned to take advantage of the future expected growth being also one of the few specialized alternative financing players (*Source: market analysis conducted by PwC in Poland*). Furthermore, Magellan is one of the key players amongst nonbank financial institutions in the market of financial services to hospitals and to the healthcare sector in Slovakia, where it has replicated its business model and established consolidated relationships with 36 healthcare facilities, which represent approximately 50% of the healthcare facilities present in the country.

Long standing relationship with high-profile clients generating significant amount of recurring business

We benefit from having over thirty years of experience in Italy and being able to offer a broad range of services in the markets in which we operate, as well as from having an efficient platform which is integrated with the platforms of our key clients. This allows us to position as a partner in the management and disposal of receivables due from the public sector. Similarly, in Eastern Europe, and especially in Poland, Magellan has long term relationships with clients, who in the healthcare sector include certain multinational groups to whom we already provide services in Italy, Spain and Portugal, and is their reference partner for alternative financing solutions.

In the Southern European Markets, we have well established relationships with our main counterparties, including the main suppliers of the Italian national healthcare system. This is evidenced by our high client retention levels and increasing growth in volumes: as of 31 December 2016, our top 10 clients in the context of our Credit Collection Management business had been our clients for an average of over 18 years and generated approximately 46% of volumes (equal to €2.7 billion in total), and our top 10 clients in the context of our Non-Recourse Factoring business had been our clients for an average of approximately ten years and generated approximately 40% of volumes.

Our client retention level represents a solid base upon which we can generate volumes and, at the same time, allows us to benefit from great visibility into our business prospects. In the Southern European Markets, over 80% on average of the volumes generated in the past 10 years relate to clients which in each year between 2013-2016 have guaranteed our business continuity ("**Consolidated Clients**"), also taking into account entities resulting from the consolidation of individual clients and/or clients who also operate in Spain and Portugal.

Our client retention level represents a solid base upon which we can generate volumes and, at the same time, allows us to benefit from great visibility into our business prospects.

Traditionally, in Italy, Spain and Portugal, we have mainly worked for and alongside leading multinational and national suppliers of products and services to the public administrations which, by virtue of the high reliability and quality standards of the services we offer, in many cases outsource all their Credit Collection Management activities to us, thus, in our opinion, creating a significant barrier to entry for other competitors. The majority of these clients have extensive experience in their sector and high credit ratings. Moreover, they benefit from higher growth rates on the markets as a result of a wide product portfolio as well as their ability to act as a consolidator in their sectors. In turn, we benefit from the profiles of our client base in terms of business volume and more stable relationships, as well as reduced counterparty risk.

Long track record in dealing with Public entities and deep knowledge of the payment dynamics and strategies

Thanks to our long-term experience in the Italian healthcare system segment, we have developed an extensive knowledge of our final debtors and of the Credit Collection Management trends and strategies. We have also established and continue to develop a detailed information database, which enables us to:

- monitor relevant payment trends, particularly DSOs;
- assess and predict the timing for credit collection and credit risk and to determine the pricing of the receivables we purchase; and

- effectively and efficiently manage the entire receivables and late payment interest collection process, and to collect high percentages of late payment interest in short periods of time.

Our advanced and scalable IT proprietary systems developed in-house in more than 30 years of activity represents a key competitive advantage, providing distinctive features of business model and offering a high level of efficiency for customers and debtors, representing, in our opinion a significant barrier to entry for competitors.

Experienced management team with proven track record of being able to successfully implement a growth strategy

Our management team has significant experience and extensive knowledge of the markets in which we operate. In particular, with respect to the Southern European Markets, our management team has, on average, over ten years of experience and an extensive knowledge of Credit Collection Management and Non-Recourse Factoring in Italy. Over time, our management has been able to take advantage of both its experience in executing transactions and its ability to manage growth strategies even in non-traditional areas (such as central administration and public entity segments, and the Portuguese market). Our Eastern Europe activities are directed by the management team of Magellan, which has been with Magellan for nearly 12 years.

Proven track record of high growth and profitability

Since 2013, in our Traditional Activities we experienced high growth rates in terms of volumes and profitability and, in particular, we recorded an increase in net profit from €57.5 million[3] in 2014 to €87.6 million in 2016 (with a CAGR of 12%).[4]

The significant increase in volumes has been achieved also through a diversification of our activity towards segments with lower risk weighting (e.g. Iberia and other public administration different from the national healthcare system) resulting in a decreasing risk-weighted assets ("**RWAs**") density and higher risk adjusted return.

In the Southern European Markets, we have also significantly increased the number of our clients and debtors during the last three years (from 145 new clients in 2014 to 262 in 2016 and approximately from 1,769 new debtors in 2014 to 6,879 in 2016), reducing the concentration of our client base and increasing the diversification of our portfolio. To support our growth strategy, since 2014 we strengthened our sales organization and started using indirect distribution channels by entering into agreements with other financial institutions (14 banks as of 31 December 2016), brokers, other factors, insurance and reinsurance companies or trade associations, and new distribution agreements with third parties.

In order to pursue our growth strategy in the European market both organically (also by taking advantage of cross-selling opportunities with clients operating in the pharmaceutical, diagnostics and biomedical fields) and by way of acquisition, in June 2016 we successfully completed the Magellan Transaction. See "*—Acquisition of Magellan*" below. We believe our volume growth trend will benefit from the acquisition of Magellan and that our growth could be further strengthened through the improved funding conditions available to Magellan as a member of our Group.

Solid business model characterized by high margins and strong profitability, an efficient cost structure despite investment to support growth and a strong capital position

Over the past three years, we have recorded high margins with the net interest margins continuously growing thanks to: (i) our leadership position in the markets in which we operate; (ii) our ability to assess and predict the collection time of purchased receivables and collect late payment interest; and (iii) the decrease in our cost of funding. The net interest margin increased from €107.7 million[5] in 2014 to €159.2 million in 2016 (with a CAGR of 22% in relation to the period 2015-2016, including Magellan), compared to due from customers which increased from €1,136.6 million at the beginning of 2014 to €2,499.1 million as of 31 December 2016

[3] Such amount has been normalized to account for the effects of the change in the valuation methods concerning the recoverability of late payment interest.
[4] Such amount has been normalized to account for the effects of extraordinary items.
[5] Such amount has been normalized to account for the effects of the change in the valuation methods concerning the recoverability of late payment interest.

(with a CAGR of 30%). Through the acquisition of Magellan we accelerated our growth process and strengthened our return on the invested capital. As of 31 December 2016, our ratio between net profit of the year and shareholders' equity ("**ROE**") was equal to 27.6% and adjusted ROE (net of the ancillary costs) was equal to 31.9%. Over the last three year we achieved a high double-digit earnings growth with a strong and resilient profitability also through the cycle. Our results have enabled us to implement a generous dividend policy for our shareholders (in the last three years, we have distributed dividends totalling €189 million) and to finance high rates of organic growth without using external capital.

During the last three years we have made significant investments in order to support our internal growth and the transformation into a bank. The number of our employees increased from 188 at the end of 2015 to 409 at the end of 2016 (225 employees at the end of 2016 not including Magellan), and in particular we increased our salesforce from 12 in 2015 to 18 in 2016. Although such investments resulted in an increase in our operational costs, we maintained a high operational efficiency principally due to: (i) limited fixed costs incurred compared to income and (ii) a significant variable component, not exceeding the fixed component, of remuneration in respect of our top management, that can be brought to 200% by the shareholders' meeting, upon request of the Board of Directors, save for the Heads of Control functions and Human Resources, whose cap is set to 33% of the fixed component, in accordance with the Remuneration Policy approved by the shareholders' meeting on 5 December 2016. Our efficient operating structure was evidenced by a cost/income ratio equal to 40.4% in 2016 (32.0% excluding extraordinary costs).

Our capital ratios are significantly higher than the minimum regulatory requirement and our SREP level, and are among the highest in the European and Italian market. As of 31 December 2016, the Banking Group recorded a Common Equity Tier 1 Ratio and a Total Capital Ratio each equal to 16.7%, excluding any income generated in the year. The consolidation perimeter for the purposes of the CRR recorded a Common Equity Tier 1 Ratio and a Total Capital Ratio equal to 16.4% and 16.6%, respectively. Given business seasonality, year-end figures represent the peak of activity and, consequently, the highest level of capital absorption.

Growing and diversified funding base with decreasing cost of funding and assets characterized by a low complexity and risk profile

We have demonstrated an ability to maintain high quality funding resources in all market cycles, also due to our asset and liability management strategy aimed at ensuring appropriate liquidity levels. Our limited risk profile combined with our high and stable profitability and the strong relationships with the banking systems have allowed us to have continuous access to credit lines. We have also demonstrated our ability to cover funding needs even during the peak of the financial crisis and sovereign debt crisis. We have a conservative liability management approach since our funding source duration is significantly higher than that of the receivables purchased.

After having obtained the banking license in 2013 and implemented certain actions to operate as a bank in the course of 2014 and 2015, we were able to diversify and expand our funding resources, and to significantly reduce, from the second half of 2014, the cost of funding and expand the purchase of receivables in the context of our Non-Recourse Factoring business. More specifically:

- in June 2014, we successfully placed our first senior unsecured bond issue for €300 million with maturity in 2017 and an interest rate of 2.75% and in the last quarter of 2014 we renegotiated our lines of credit; in September 2014, we launched an online term deposit account in Italy, and we collected deposits totaling €418 million as of 31 December 2015 compared to €226 million as of 31 December 2014, an increase of 84.9% also thanks to the launch in August 2015 of a similar product in Spain. As of 31 December 2016 the Group collected in total approximately €817 million (an increase of 95.5% as of 31 December 2015); and

- in June 2016, we successfully placed a further senior unsecured bond issue for €150 million with maturity in 2021 and an interest rate of 1.25%.

Our Liquidity Coverage Ratio (an index relating to short term liquidity, i.e. within 30 days) was equal to 391% as of 31 December 2015 and 502% as of 31 December 2016, which was significantly higher than the minimum regulatory requirement, equal to 60% and 70% as of 31 December 2015 and 2016, respectively. We

also have a low leverage ratio, which in the years ended 31 December 2015 and 2016 was equal to 6.1% and 4.9% (5.9% excluding Magellan), respectively.

We believe that our credit portfolio includes high quality assets, consistent with our strict rules governing the purchase and management of receivables. The receivables we acquire have a low credit risk, since our main debtor counterparties are entities of the Italian, Spanish and Portuguese national healthcare systems and public administrations, which have a low insolvency risk. The assignors of our receivables also have a low risk profile being confined to the risk that they may be unable to pay back the purchase price in the event that the assigned receivables turn out to be inexistent or without value and therefore we have the right to recover the principal and interest from them. This risk is very low thanks to the high credit quality of our clients and, for our minor clients in Spain and Portugal, our invoice settlement system which confirms the acknowledgment from the debtors of the receivables before purchase. We believe the low-risk nature of our assets is shown by our low amount of non-performing receivables. For the years ended 31 December 2015 and 2016, our net non-performing receivables were equal to 0.1% and, (including Magellan) 0.5%, respectively, of factoring assets.

Consistent growth in profits and increasing returns on weighted assets to support a high dividend distribution capability

Over the past three years, we have recorded a consistent growth in profits, thanks to successful initiatives (such as the consolidation of our expansion into Spain and diversification in the non-health public administration sector) which were supported by the extension of our funding resources and the reduction in the cost of funding. Despite the investments we have made in infrastructure and operating costs, we have maintained an efficient cost structure, with a particularly low cost income ratio (approximately 30%, adjusted), thus limiting the initial negative impact of such initiatives on our profits.

Our business model and our capacity to replicate it are reflected in our financial results which, despite the adverse macroeconomic conditions in Europe and Italy, have demonstrated that our business has a robust capacity to generate profits (amounting to €72 million in 2016 and €69 million in 2015), even in adverse market conditions. Our ability to generate increasing profits, combined with greater efficiency in the use of capital in segments characterized by reduced risk-weighting (such as the non-healthcare public administration sector and the Spanish market), has allowed us to increase our returns on risk-weighted assets, which decreased from approximately 14.1% in 2015 to approximately 13.2% in 2016 (calculated as the ratio between total profits and average risk-weighted assets for the relevant period).

The positive results which we have achieved in terms of profitability have given us great flexibility which, together with our robust capital position (CET1 equal to 16.7% as of 31 December 2016 in relation to the Banking Group) and our ability to use our capital efficiently, has enabled us to implement a generous dividend policy for our shareholders (in the last three years, we have distributed dividends totalling €189 million, including the profits of the year 2016 which are still to be distributed as of the date of this Prospectus) and to finance high rates of organic growth without using external capital.

Our Business Strategies

We seek to operate our business by implementing the following strategies:

Consolidation of our position of leadership amongst suppliers to the healthcare sector in Italy and further expansion of our business towards public administrations and private entities operating in the Italian healthcare sector

We intend to increase our market share that we hold in Italy in the Credit Collection Management and Non-Recourse Factoring business towards the health care sector, as well as to: (i) consolidate our position of leadership amongst specialized suppliers to the healthcare sector by increasing client loyalty and further improving and customizing of the services we offer; (ii) maintain a central role in providing specialized services in the management and sale of receivables for large customers; (iii) capitalize on our strong market position and the experience we have acquired in the management of receivables due to suppliers of the Italian national healthcare system, expanding our activities towards public administrations and private entities (including religious organizations) operating in the healthcare sector; (iv) increase the diversification of our client base and the type of receivables purchased, also expanding our activities concerning the purchase of tax

receivables; and (v) continue to invest in the technological infrastructure of our IT systems, which represents a competitive advantage in the traditional markets of our business.

Further growth in non-Italian markets

We intend to pursue growth opportunities in markets outside of Italy, by identifying markets which have similar characteristics (particularly with respect to the regulatory and legislative framework) to Italy, as we have done in Spain and Portugal. We seek to expand our presence in Spain and Portugal, which we have developed organically, as well as seek out strategic acquisitions.

In Spain and Portugal, we seek to take advantage of our experience and cross-selling opportunities deriving from our multinational client base. Our aim, especially in the segment relating to receivables due from national healthcare systems, is to manage volumes of receivables consistent with those in Italy, and to continue to increase our business with the public administration in Spain (including publicly owned companies) and to generate new business with the public administration in Portugal.

With respect to other European markets, we successfully acquired Magellan, one of the leading operators in the field of financial services for the healthcare industry and local public administrations in Poland, the Czech Republic and Slovakia, operating also through a branch established in Spain. See "*—Acquisition of Magellan*" below. We believe we could successfully replicate, organically or through bolt-on acquisitions, our model in other European Union markets.

Maintenance of high quality assets, strong capital position and high level of dividend distribution

We intend to maintain high capital ratios in order to cover the risk relating to our Non-Recourse Factoring activities in Italy and Spain and to support the growth strategies described above. In particular, we intend to keep our Total Capital Ratio at or above 15%, and to continue to undertake a conservative risk management and maintain high quality assets. This has also allowed us to maintain a high level of dividend distribution to our shareholders, which we have been able to do in the past due to our high capacity to generate profits regardless of the difficulties arising from unfavourable contexts at a macroeconomic level.

Constant optimization of our funding resources in terms of cost, availability and diversification

We intend to continue to improve our funding structure to support our business through the diversification of our funding resources, the reduction in costs and the increase in volumes. We intend to increase the online collection of deposits from retail and corporate clients by strengthening such activities even in new markets (as we did in September 2014 with the launch of "*Conto Facto*" in Italy, in August 2015 with the launch of "*Cuenta Facto*" in Spain through our Spanish branch and in June 2016 with the launch of the online collection of deposits from German clients through our Spanish branch). Following our second bond issue in June 2016, we also intend to continue to raise funding in the debt capital markets and through ECB funding and other interbank channels to which we have access as a result of obtaining a banking license. The increased availability of funding and the reduction in the cost of funding are instrumental in achieving the growth strategies outlined above and represent an innovative feature for our traditional business model. See "*—Description of Our Business Activities by Service Segments—Collection of online deposits* ("*Conto Facto*" *and* "*Cuenta Facto*")".

Expansion and diversification of distribution channels

We intend to continue our strategy developed over the last few years of diversifying and expanding our distribution channels in Italy and Spain, which is aimed at acquiring new clients by strengthening our direct sales network and collaborating with other financial intermediaries, insurers, reinsurers and/or brokers. We believe that by having a greater diversification of distribution channels, we may be able to reach out to a broader set of counterparties to in turn diversify our own portfolio.

Our History and Development

History

First Developments

The Issuer was incorporated on 22 July 1985 under the name of "*Farmafactoring S.p.A.*", by Confarma S.p.A. ("**Confarma**") (a consortium of pharmaceutical companies with an initial holding of 60% of our shares), B.N.L. Holding S.p.A. ("**BNL**"), which owned 30% of our shares, and International Factors Italia S.p.A. ("**Ifitalia**"), which owned 10% of our shares, in order to manage and collect the receivables due from the Italian national health system to pharmaceutical companies.

In 1990, we started to carry out non-recourse factoring services alongside the management and collection of receivables. In 1992, we began operating as an authorized financial intermediary and were included in the special register of the Bank of Italy and in 1994 we were also registered in the general list of the Bank of Italy.

In 2004, we founded the Farmafactoring Foundation with the aim of improving the public knowledge of socioeconomic and financial issues in relation to social welfare, with a particular focus on the health service system.

In December 2006 and January 2007 the private equity fund Apax Europe VI, managed by Apax Partners, purchased a controlling stake in Confarma and the remaining stakes in our share capital held by other minority shareholders and became our indirect controlling shareholder through a newly incorporated company, FF Holding S.p.A. ("**FFH**"), controlled by Farma Holding S.à r.l. ("**Farma Holding**"). Before the acquisition Confarma held 60% of our shares and the minority shareholders were Ifitalia, Finanziaria Banca Agricola Mantovana S.p.A. and Banca di Roma S.p.A., respectively holding stakes of 19%, 11% and 10%.

On 10 December 2009 we incorporated, and became the sole shareholder of, Farmafactoring España S.L., which offers factoring of healthcare receivables in the Spanish market. In 2011 Farmafactoring España S.L. completed the first purchase of receivables and in July of the same year was transformed into Farmafactoring España S.A.

On 2 January 2013, we were authorized by the Bank of Italy to carry on banking activities. Shortly thereafter, on 3 July 2013, we changed our corporate purpose and changed name to Banca Farmafactoring S.p.A. and were registered as Banca Farmafactoring in the register of banks (*albo delle banche*) held by the Bank of Italy, as well as in the register of banking groups (*registro dei gruppi bancari*) as parent company of the Banking Group and we became a bank. At the same time, on 2 July 2013, we were removed from the list of financial intermediaries held by the Bank of Italy.

In 2014, we started to provide factoring services in Portugal where our business is carried out under the freedom to provide services (following the filing of an application with the Bank of Italy, which on 23 April 2014 confirmed to have no objections in this respect).

In September 2014, we launched our "*Conto Facto*" online term deposit account service in Italy. This was the first retail product created to diversify our sources of financing used for the purchase of receivables within our Non-Recourse Factoring business and to minimize overall funding costs. On 3 November 2014, we applied to the Bank of Italy for the authorization to open a branch in Spain under freedom of establishment, in order to introduce an online deposit called "*Cuenta Facto*" also in the Spanish market, following the model of the "*Conto Facto*" online term deposit account in Italy.

In March 2016, we informed the Bank of Italy of our intention to offer banking services in Germany and having received no objection from them in this regard, in June 2016, we launched the collection of savings in Germany through the online platform *Welstparen.de*, using our Spanish branch under the freedom to provide services. On the German market, we provide the "*Cuenta Facto*" online term deposit account service, which allows German customers to access term deposit accounts offered by foreign banks not established in Germany. As of 31 December 2016, the collection of "*Conto Facto*", "*Conto Facto Plus*" and "*Cuenta Facto*", jointly with the abovementioned German service, amounted to €822.4 million compared to €416.7 million as of December 2015.

In addition, in line with our organic group strategy, we are also considering to start operating in Greece in the near future, subject to the completion of the passporting procedure provided under the CRD IV and related implementing provisions and provided that no objections are raised by competent authorities in this respect. In February 2017, we submitted our first filing with the Bank of Italy to offer factoring services in Greece under the freedom to provide services, while the beginning of operations is expected to occur not earlier than in the second quarter of 2017. See *"—Recent Developments—Expansion of our business in Greece*".

The Issuer is incorporated and operates under the laws of Italy, and is registered with the Milan Chamber of Commerce under registration number 07960110158, with its registered office at Via Domenichino, 5, 20149 Milan, Italy. The Issuer is also on the register of banks (*albo delle banche*) held by the Bank of Italy under registration number 5751 and on the register of banking groups (*registro dei gruppi bancari*) under registration number 3435. The Issuer's by-laws specify that the period of the Issuer's duration expires on 31 December 2100 and may be extended at an extraordinary meeting of the shareholders. The telephone number of the Issuers' registered office is +39 02 499 051.

Group corporate reorganization

On 14 October 2014 (with accounting effects as of January 2015), FFH was merged into us and, as a result of the merger, the shareholders of FFH became our shareholders.

Therefore, our corporate structure was as follows: (i) Farma Holding S.à r.l. (88.3471%), (ii) Bracco S.p.A. (3.2758%), (iii) Merck Serono S.p.A. (2.5862%), (iv) L. Molteni & C. dei Fratelli Alitti Società di Esercizio S.p.A. (1.2069%), (v) Mediolanum Farmaceutici S.p.A. (1.2069%), and (vi) a group of our managers and former managers as minority shareholders (in aggregate 3.3771%).

In April 2015, the funds advised by Apax Partners and other shareholders agreed to sell their stake in the Issuer to an affiliate of Centerbridge Partners L.P. ("**Centerbridge Partners**"). The transaction was finalized in November 2015 when 94.26% of our share capital was transferred by Farma Holding to BFF Luxembourg, indirectly controlled by the private equity fund Centerbridge Capital Partners III (PEI) L.P.

Following the ordinary and extraordinary shareholders' meeting of 18 May 2016 and 31 May 2016, 1,704 special shares were issued and granted without consideration to the employees of the Group, resulting in an increase in the share capital from €130,900,000 to €130,982,698.

For more information regarding our corporate structure, see "*Shareholders, Share Capital and Subsidiaries*".

Acquisition of the Magellan Group

On 27 May 2016 the tender offer in respect of all the share capital of Magellan was finalised and on 30 June 2016 we completed the acquisition of Magellan (the "**Magellan Transaction**"), as a result of which we currently hold 100% of the share capital of Magellan. See "*—Acquisition of Magellan*" below.

Shareholders, Share Capital and Subsidiaries

Shareholders

As at 31 December 2016, the Issuer had an authorised share capital of €137,881,898.00, €130,982,698 of which has been issued and paid up, represented by 1,701,074 ordinary shares without nominal value, of which 1,074 special shares without voting rights. The remaining €6,899,200 of the authorized share capital may be issued and paid up through the issuance of a maximum of 8,960,000 new shares, in one or more tranches, in 12 years starting from 5 December 2016. Since 31 December 2016, there has been no change to the Issuer's share capital. BFF Luxembourg holds a majority shareholding in the Issuer, representing 94.196% of its share capital. We are not subject to direction, management and control functions by BFF Luxembourg pursuant to Article 2497 of the Italian Civil Code.

For the sole purposes of prudential supervision reporting under CRR, our parent company BFF Luxembourg and its parent company BFF Lux Holdings are included in a consolidation perimeter and must be consolidated into our financial statements with effect from the year ended 31 December 2016, even if these entities do not form part of the Group.

On 20 June 2016, BFF Lux Holdings was put into liquidation and its shareholding in BFF Luxembourg was transferred to BFF PEI Limited Partnership ("**BFF Canada**") following the liquidator's resolution of 21 June 2016. Following the supervisory reports of 30 June 2016, the consolidation perimeter for the purposes of the CRR only includes our Group and BFF Luxembourg, as the entity at the top of the consolidation perimeter for prudential supervision purposes.

Share Capital

The table below sets out the shareholders of the Issuer, as of the date of this Prospectus, including each shareholder's approximate percentage shareholding:

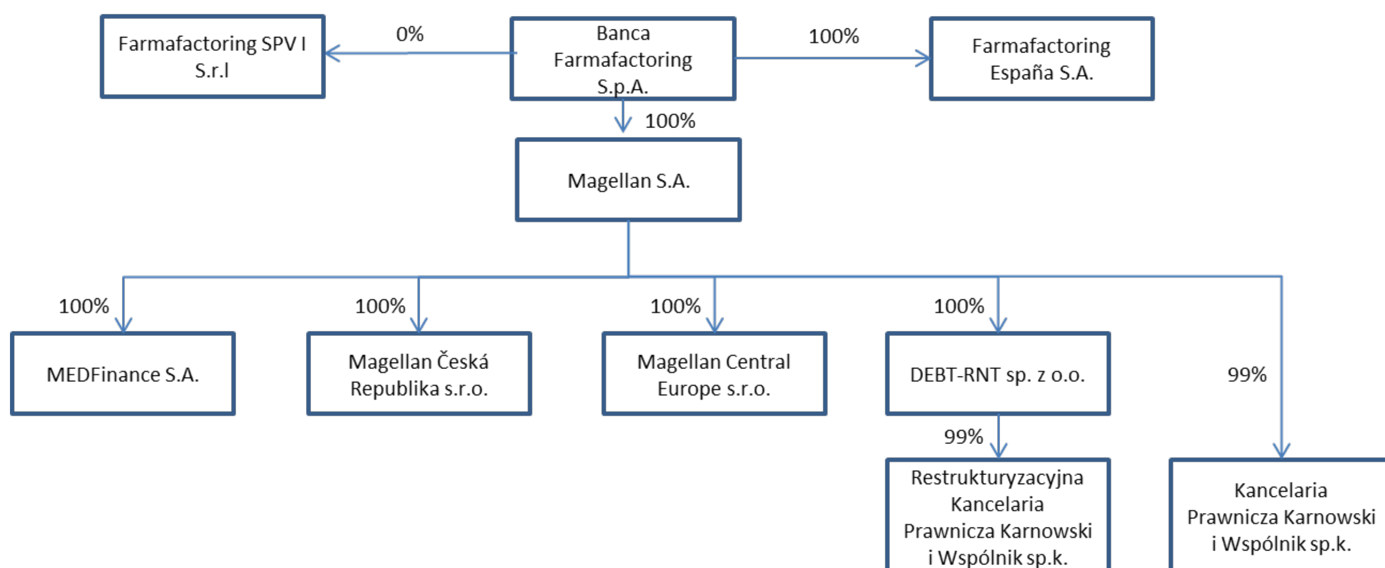
Name	**Percentage of ordinary shares with voting rights**	**Percentage of special shares without voting rights**	**Percentage of share capital**
BFF Luxembourg.	94.196	-	94.196
Bracco S.p.A.	3.274	-	3.274
Mediolanum Farmaceutici S.p.A.	1.206	-	1.206
L. Molteni & C. dei Fratelli Alitti – Società di Esercizio S.p.A.	0.849	-	0.849
Unione Fiduciaria S.p.A	0.412	-	0.412
Employees..	-	0.063	0.063
Total	**99.937**	**0.063**	**100.000**

Subsidiaries

The Issuer, which is the parent company of the Group, holds 100% of the share capital of Farmafactoring España, 100% of the share capital of Magellan (the holding company of the Magellan Group) and exercise control over the special purpose entity Farmafactoring SPV I S.r.l. ("**Farmafactoring SPV**").

The business of Farmafactoring SPV is focused on securitization transactions and its exclusive purpose is to realize one or more securitization transactions on receivables pursuant to article 3 of the Law No. 130 of 1999. Although we are not shareholders of Farmafactoring SPV I S.r.l., it must be consolidated into our financial statements in compliance with the "*SIC-12 Consolidation-Special Purpose Entities*" principle ("**SIC-12**"), elaborated by the Standing Interpretations Committee. Under SIC-12, an entity must consolidate a company when, in substance, the entity controls the company, even in the absence of an ownership interest.

The structure of our Group is as follows:



As of the date of this Prospectus, we are the parent company of the following companies:

Company	Registered office	Share capital	Shareholding
Farmafactoring España S.A.	Calle Luchana No. 23 28010 Madrid (Spain)	€6,100,000.00	100%
Magellan S.A.	Al. Marszałka Jòzefa Piłsudskiego 7690-330 Łódź	PLN 2,016,011.10	100%
Farmafactoring SPV I S.r.l.	Via Statuto No. 10 20121 Milan (Italy)	€10,000.00	0%

Description of Our Business Activities by Service Segments

We are an independent operator in the Credit Collection Management and Non-Recourse Factoring segments with reference to our Traditional Activities. Our clients are primarily composed of large companies, including international multinationals that provide their products and/or services in Italy, Spain and Portugal to national healthcare service authorities ("**Public Healthcare Debtors**"), and to private entities (including religious organizations) active in the healthcare sector ("**Other Debtors**") and public administrations ("**Public Administration Debtors**" and, jointly with Public Healthcare Debtors and Other Debtors, "**Debtors**").

We benefit from having over thirty years of experience and being able to offer a range of services in the markets in which we operate, as well as from having an efficient platform which is integrated with some of the platforms of our key clients. This allows us to position ourselves as a partner in the management and disposal of receivables due by the public sector.

We have historically provided services to clients active in the healthcare sector. The majority of our clients are long-standing: as of 31 December 2016, our top 10 clients had been our clients for more than eighteen years (almost ten years if we refer to our Non-Recourse Factoring business) and accounted for approximately 46% of receivables intermediated in 2016 with regard to Traditional Activities (both Non-Recourse Factoring and Credit Collection Management services). Concerning recurring non-recourse factoring clients defined as clients who concluded at least one transaction per year between 2014 and 2016, we recorded a CAGR of 6% in the period 2008-2016 in terms of purchases with recurring clients representing on average more than 70% of total purchases with regard to data of the financial year of 2016.

In 2016, in the context of our Credit Collection Management and Non-Recourse Factoring activities, we managed €4.3 million invoices. The following table provides a summary of the main characteristics of our Credit Collection Management and Non-Recourse Factoring activities.

	Credit Collection Management	Non-Recourse Factoring
Activity....................	Management of the process of recovery and collection of receivables due to Suppliers, including the management of administrative issues and debt collection activities, both in court and out of court, and of other ancillary services including electronic invoicing and credit certification	Outright purchase from Suppliers of the principal amount (including late payment interest and ancillary income) of receivables mainly due from debtors of the national healthcare system and/or public administration agencies (including tax receivables from the Italian tax authorities), acquiring full ownership thereof, as well as the risk of non-payment. The receivables are generally overdue rand already bear late payment interest
Revenues	Our income primarily derives from: (i) loading fee, and (ii) collection commission	Our income primarily derives from: (i) maturity commission, and (ii) late payment interest
Credit Risk...............	Non-payment of commission	Non-collection of principal and/or ancillary income
Costs	The client bears all legal management costs on behalf of third parties	We bear all management costs
2016 Receivables.....	€2,876 billion	€3,003 billion

Due to the diversification of our funding resources and the reinforcement of our sales organization, our Non-Recourse Factoring segment relating to the Traditional Activities remained slightly stable across the Group in 2016 with receivables in outstanding and purchases remaining stable respectively at about €2 billion (i.e. increasing by €8 million) and €3 billion (i.e. increasing by €17 million), while volumes from our Credit Collection Management and Non-Recourse Factoring segments slightly reduced in total by about 6% from €6.3 billion in 2015 to €5.9 billion in 2016.

In Italy, we recorded a significant growth in 2015, with purchased receivables increasing by 32% compared to the previous year, notwithstanding the effects of the introduction of the Split Payment Mechanism legislation and taking into account an average VAT rate of 15%.

As of 31 December 2015 and 2016, we carried out our business with, respectively, 181 and 262 clients and with 5,956 and 6,879 debtors.

Credit Collection Management

We offer Credit Collection Management services in Italy and Spain that are tailored to the difficulties and timescales of our clients' collection processes of invoices issued to their Debtors. By performing all of the administrative and legal activities needed to carry out the collection of receivables, the service we offer allows clients to significantly reduce their internal credit management and recovery costs. In particular: (i) the efficiency of the IT platform we use to handle the different phases of the receivables management and disposal process allows us to fully interact with both clients and Debtors throughout the process, and (ii) the specialised experience which the professionals working for us have gained in this field allows clients to benefit from a better performance in terms of payment of the receivables and recovery times.

Our relationship with clients is based on management contracts which require clients to issue a mandate for the recovery of receivables and to delegate powers to us, meaning that we are legally authorized to act on their behalf and to act as a proxy for the collection of receivables under management.

In the context of our Credit Collection Management activities, clients maintain the risk of insolvency of, and the risk of late payment by, Debtors, since we only manage and do not acquire receivables. Therefore, in carrying out these activities on behalf of third parties we are only exposed to the risk of non-payment of collection and/or management commission by the client. For these purposes, we are not required to grant funding, since there is no cash payment to clients, and we only provide receivables management and collection services (including late payment interest).

The revenue generated by our Credit Collection Management activities primarily derives from the management commission paid by clients. Management commission consists of a fee paid when the receivables are accepted and an additional commission paid at the time of collection as recognition of the successful outcome of the management activity.

Our Credit Collection Management activity is strategically important, since clients often turn to us for the management of their receivables and, thanks to our clients' loyalty in this field, we are often also able to generate Non-Recourse Factoring business with the same clients.

The following table shows the receivables and commission income that we have generated through our Credit Collection Management activities for the years ended 31 December 2016 and 2015, respectively.

	As of 31 December 2016	**As of 31 December 2015**
	(in € millions)	
Receivables (Credit Collection Management)	2.9	3.3
Commission income	7.8	8.4
Of which commissions for non-recourse	4.5	4.5
Of which commissions for collection	2.6	2.7
Of which other expenses and commissions	0.7	1.2

The decrease in commission income is due to to the following factors: (i) the Italian law no. 190 of 23 December 2014 ("*Legge di Stabilità 2015*") introduced certain amendments to the VAT regime on transactions carried out with public entities and debtors of the INHS and of PA, with subsequent negative effects on management volumes; (ii) as of the start of 2015, some clients benefited from a conversion of income related to non-recourse receivables assignment transactions, with a subsequent decrease in commission income; and (iii) over the last two years, some competitors have entered the credit management market and hindered the growth of the Group's Credit Collection Management.

Non-Recourse Factoring

As part of our Non-Recourse Factoring business, we acquire outright the receivables due to our clients from their debtors. The purchase of Non-Recourse Factoring receivables allows our clients to deconsolidate the transferred receivables in accordance with the IAS and US GAAP standards applicable to the transfer of receivables. The receivables are transferred from the relevant client's financial statements to our financial statements, and we assume their full ownership, including any cost and benefit connected therewith, and, in particular, any late payment interest accruing from the due date of the receivables and other ancillary income. In the event of the non-existence of the receivables, we have the right to terminate the transfer and the client must immediately repurchase the receivables at par and return any amounts paid by us.

The purchase price is normally equal to the nominal value of the receivable net of a commission, calculated by us on the basis of a prior assessment of, among other things, the relevant credit risk (including an assessment of the assignor, the Debtor and the timing for payment).

The purchase price of each receivable largely depends on the expected payment date. Therefore, we carefully monitor the DSOs of each Debtor and input data into our historical database which contains the payment times of all invoices managed during the course of our activities (on behalf of third parties and on our own behalf). This database is used to estimate the collection times of receivables recorded in our financial statements (in order to manage our liquidity) and to determine the price of new receivables during the purchase phase in our Non-Recourse Factoring activities.

Once purchased by us or Farmafactoring España, receivables are managed by us on our own behalf for their entire remaining life cycle, until the principal and the recovered late payment interests are collected.

Our revenues from our Non-Recourse Factoring activities mainly derive from the following:

- *Fixed commission* ("**Maturity Commission**"). We deduct Maturity Commission from the purchase price and calculate it as a percentage of the nominal value of each receivable, as determined on a case by case basis at our discretion at the time of purchase on the basis of, among other things: (i) past payment trends of Debtors owing the transferred receivables; (ii) the quality of the portfolio transferred by the client; and (iii) financial expenses (current and future) that we must incur to finance the purchase of receivables.

- *Late payment interest*. Debtors pay late payment interest at the ECB base rate pursuant to Directive 2011/7/EU, as applied in the various jurisdictions in which we operate, which sets out the late payment interest rate applicable in the event of late payment in commercial transactions between companies or between companies and the public administration. Interest is generally collected once the nominal value of the receivable has been repaid.

The recognition of Maturity Commissions and late payment interest in our income statement reflects our income resulting from the application of the amortized cost method to the measurement of purchased non-recourse receivables, in accordance with IAS 39, based on the present value of estimated future cash flows (TIR ("*tasso interno di rendimento*") of the transaction).

At the time of purchasing of a receivable, it is registered in the balance sheet in accordance with the IAS principles at its original purchase price.

On a monthly basis the IAS value of the receivable is calculated considering the expectations of capital collection, net of the possible collections already received, late payment interests accrued until the date of evaluation and the interest accruing until the entire collection of the capital.

The IAS value derives from the calculation of the present value of these future cash flows, on the basis of the TIR ("*tasso interno di rendimento*") of the transaction valued at time of purchase. The spread between the value calculated in relation to the principal amount is the adjustment to be made to the balance sheet. The comparison between this adjustment and that calculated on the prior month as of the evaluation date constitutes the amount of interest income to be included in the income statement.

When the capital is entirely collected, the amortized cost applies only to the late payment interest yet to be collected. The spread between the adjustment value to the assets calculated on the reference month and that calculated on the foregoing month represents the impact on income statement of the interest part alone.

Any capital gains or losses incurred in connection with collection of interest payments shall be determined with reference to the recovery amount that was initially estimated.

Late payment interest constitutes a significant income component for us. For the year ended 31 December 2016, we recorded in our income statement €163.2 million in Maturity Commissions and late payment interest. The late payment interest recorded in our income statement and balance sheet is just a part of all late payment interest accrued and legally due to us in the course of our Non-Recourse Factoring business. We estimate the recoverability percentage of late payment interest legally due to be equal to 40% of its nominal value at the estimated collection date (conservatively fixed at 1800 days) and, in the event of higher recoverability percentages (as recorded in the past), we record the difference as a capital gain at the time of collection. Starting from 1 January 2017 our management, on the basis of our historical data on collected amounts and timing for collection, and in relation to the portfolio of receivables managed by the Issuer and Farmafactoring España only, has resolved to raise the percentage of the estimated amount of late payment interest that will be collected up to 45%.

The amount of late payment interest accrued and legally due to us, but not yet collected, is recorded in the late payment interest fund, which at Group level was equal to €547 million and €460 million, respectively, for the years ended 31 December 2016 and 2015. As of 31 December 2016, part of such late payment interest fund, equal to €186 million, has already been recognized in our income statement, either in the current or in the previous years (€151 million as of 31 December 2015).

The amounts of late payment interest which have not been reflected in our income statement for the years ended 31 December 2015 and 2016 (equal to, respectively, €309 million and €361million) represent a possible source of future income within the Group's loan portfolio, which, wherever it is carried out, even in part, could reinforce the Group's capital structure.

The table below shows our purchased non-recourse receivables and interest income generated by us, with reference to the Traditional Activities, in the context of our Non-Recourse Factoring activities for the years ended 31 December 2016 and 2015, respectively.

	As of 31 December 2016	**As of 31 December 2015**
	(in € millions)	
Receivables (Non-Recourse Purchases)	3,003	2,986
Interest income	163.2	154.5

The table below shows, with reference to the Traditional Activities, the new purchases in our Credit Collection Management and Non-Recourse Factoring segments during the years ended 31 December 2016 and 2015.

	For the years ended 31 December			
	2016		**2015**	
	amount	**% total**	**amount**	**% total**
	(in € millions except percentages)			
Credit Collection Management	2,876	48.1%	3,301	51.2%
Non-Recourse Factoring	3,003	50.2%	2,986	46.3%

The table below shows, with reference to the Traditional Activities, the collections we made in our Credit Collection Management and Non-Recourse Factoring segments during the years ended 31 December 2016 and 2015.

	For the years ended 31 December			
	2016		**2015**	
	amount	**% total**	**amount**	**% total**
	(in € millions except percentages)			
Credit Collection Management	3,290	52.3%	2,995	54.2%
Non-Recourse Factoring	2,995	47.7%	2,527	45.8%

The tables below show, with reference to the Traditional Activities, the outstanding items under management in our Credit Collection Management and Non-Recourse Factoring segments during the years ended 31 December 2016 and 2015, as well as our total interest and similar income during the same periods, along with the evolution by quarter for the years 2016 and 2015 of the outstanding.

	For the years ended 31 December			
	2016		2015	
	amount	% total	amount	% total
	(in € millions except percentages)			
Credit Collection Management	-	0.0%	-	0.0%
Non-Recourse Factoring	2,017	100.0%	2,009	100.0%

	For the years ended 31 December	
	2016	2015
	(in € millions)	
Q1	1,783	1,229
Q2	1,815	1,377
Q3	1,694	1,581
Q4	2,017	2,009
Q4 (including Magellan)	2,464	2,410

The tables below show, with reference to the Traditional Activities, the total amount of our Outstanding Receivables in the context of our Non-Recourse Factoring activities for the years ended 31 December 2016 and 2015, respectively, divided by country.

	As of 31December 2016	As of 31 December 2015
	(in € billions)	
Outstanding Non-Recourse Factoring Receivables	**2.0**	**2.0**
Italy	1.8	1.8
Spain	0.1	0.2
Portugal	0.0	0.0

	For the year ended 31 December 2016
	(% total)
Italy	75%
Spain and Portugal	7%
Poland	14%
Slovakia	3%

As of 31 December 2016, we have received refusals to accept single assignments from 437 final debtors (equal to 21% of our total outstanding receivables, for a countervalue of €387.3 million) and we have collected €47.6 million as of 31 December 2016, equal to 12% of outstanding receivables.

Furthermore, the outstanding receivables purchased from 2013 to 2015 which were challenged by final debtors in relation to our non-recourse factoring business, and related to claims currently pending, as of 31 December 2016 amount to €50 million and correspond to 2.5% of the non-recourse capital exposure of the Issuer.

Collection of online deposits (“***Conto Facto***” ***and*** “***Cuenta Facto***”)

After obtaining a banking license in 2013, in order to further diversify our sources of funding, in September 2014 we launched the online term deposit account named “*Conto Facto*” on the Italian market. In

August 2015, we started performing the collection of online deposits also in Spain through our Spanish branch, by launching the online term deposit account named "*Cuenta Facto*". In June 2016, we launched the collection of online deposits in Germany through the online platform *Welstparen.de*, using our Spanish branch under the freedom to provide services. We perform the collection of savings for both retail and corporate customers in Italy and Spain through these online fixed-rate term deposit accounts.

"*Conto Facto*" and "*Cuenta Facto*" allow us to: (i) improve the funding of our core business through a further diversification of our funding resources, (ii) optimize the structure and cost of our funding, (iii) simplify product management, as a result of the reduced activity compared to other forms of direct deposits, such as current accounts, (iv) achieve greater liquidity control and improvement of the relevant indicators, and (v) by raising fixed rate deposits, reduce interest rates risk and, consequently, the absorption of capital and/or the cost of derivatives hedging the risks connected with our receivables portfolio. Our continued ability to offer such products may affect our funding levels. See "*Risk Factors—Our dependence on access to the capital markets to maintain certain levels of liquidity and to obtain long-term financing could have a material adverse effect on our business, financial condition, or results of operation*."

Once our online term deposit accounts are opened, clients can choose to deposit their savings for a minimum of 3 months to a maximum of 36 months in Italy and 60 months in Spain (36 months for Spanish corporate customers). In the Italian jurisdiction, customers may also choose between: (i) "*Vincolo Facto*", where the amounts deposited will be tied up for the entire term and may not be withdrawn sooner, and (ii) "*Vincolo Facto Plus*", where customers are allowed to withdraw deposited amounts sooner than the term. In order to withdraw the sums, customers must submit a release request through our website or a different channel made available by us, for an amount which cannot be higher than the maximum amount or lower than the minimum amount specified in the applicable information sheet. The release will be effective on the date on which we receive the request, and we will make the relevant sums available from the day following receipt of the request. In the Spanish and German jurisdictions, customers may choose only "*Vincoli*" corresponding to "*Vincolo Facto*", where the amounts deposited will be tied up for the entire term and may not be withdrawn sooner.

Customers who are classified as "consumers" may exercise the right of withdrawal, without penalty, within 14 days of the date of the execution of the agreement (the "cooling-off period"). During this period, the withdrawal will become effective upon receipt of notice of withdrawal from the relevant customer (to be sent via registered post). We will subsequently return the sums deposited without interest.

Customers may, on expiry of the agreed term, choose to leave the sums in the accounts and benefit from the payment of interest by us calculated on the basis of a predetermined rate.

After having chosen between the above mentioned "*Vincolo Facto*" and "*Vincolo Facto Plus*", customers may withdraw from the contract at any time, without having to pay any penalties or expenses, by giving notice of withdrawal by registered post or via the personal area of the website. If the deposits are tied up for a given period, the withdrawal will become effective upon expiry of the term, and if not upon receipt of the withdrawal notice. The sums will become available within 15 days of when the withdrawal becomes effective.

We are entitled to withdraw from the agreement at any time by giving two months' prior written notice to the customer, except where we terminate for just cause in which case the withdrawal will be immediately effective. If deposits are tied up for a given period, the withdrawal will be effective from the term expiry date.

As of 31 December 2016 in Italy, Spain and Germany we had 14,118 "*Conto Facto*" and "*Cuenta Facto*" accounts. Our deposits totaled €822.4 million, while average deposits per customer were equal to €58.3 thousand.

Magellan

Business of Magellan

Magellan operates in a niche market and offers non-standard products and services in the following segments: (i) overdue debt position financing and debt management, (ii) liquidity management and (iii) investment and equipment financing. Magellan has long term relationships with clients in Eastern Europe, and especially in

Poland, including certain multinational groups in the healthcare sector to whom we already provide services in Italy, Spain and Portugal, and is their reference partner for alternative financing solutions.

Overdue debt position financing and debt management

Magellan cooperates with both parties of the supply or services agreements on the healthcare market, namely suppliers and buyers. On the one hand, Magellan offers to suppliers factoring (receivables assignment) and factoring-like products and clears any overdue debt position. On the other hand, Magellan grants medium and long-term loans to public healthcare providers to allow them to pay any overdue debt.

Non-recourse factoring

Magellan purchases overdue receivables from suppliers of independent public healthcare centers controlled by public authorities ("**Centers**") and/or non-public healthcare centers ("**Private Hospitals**", and together with Centers, "**Healthcare Providers**"). Where receivables are due from Centers, the assignment contracts are conditional on the Center's founding body's consent to the assignment.

Magellan is in charge of financing the receivables and carrying out management and collection services. In addition, Magellan normally carries out receivables assignment on a non-recourse basis and will assume the risk of non-payment by the debtor. Magellan allows customers to extend their commercial loan beyond the due date of the invoice.

The profit of Magellan consists in commission or a discount on the purchase price of the receivables, and also in interest accruing on the receivables.

Factoring-like products

Magellan offers factoring-like products where it is not possible to obtain the consent of a Center's founding body.

Magellan provides financing to suppliers of Centers and/or Private Hospitals, and manages their receivables in return for a commission. The "professional proxy" (i.e. the legal office in Magellan's group) collects the receivables directly from Healthcare Providers on behalf of suppliers.

Magellan's group assumes all risks connected with the receivables, as well as the obligation to finance them, and must pay the relevant supplier even if it fails to recover the receivables. After acquiring the receivables, Magellan will enter into an agreement with the original debtor (i.e. the Healthcare Provider) setting out the terms and deadlines for repayment.

Magellan's profit consists in the commission due from the supplier and interest on the receivables due from the Healthcare Provider pursuant to the agreement entered into with them.

Debt restructuring and acquisition

Magellan undertakes to repay a Healthcare Provider's due and payable debt vis-à-vis its creditor(s). In return, the Healthcare Provider agrees that Magellan will become its creditor and that the interest under the relevant debt will be capitalized and undertakes to repay the debt (with interest) in instalments, and to pay a restructuring fee.

If the contract is entered into with a Center, the Center is required to confirm that it has obtained its founding body's consent to the change of creditor.

Refinancing of liabilities

At the request of a buyer (e.g a hospital), Magellan repays the buyer's liabilities vis-à-vis a supplier. Following repayment of the liabilities, Magellan becomes the buyer's creditor and acquires all of the rights in the receivables. Magellan's profit consists in the commission received from the buyer, as well as interest.

Long and medium-term loans

Magellan grants loans (in tranches) to Centers, Private Hospitals and municipalities. Borrowers undertake to repay the loan together with interest in instalments. Magellan also receives a commission.

Liquidity management

Magellan offers liquidity management services to operators on the healthcare and local government units ("**LGU**") markets to cover their short-term liquidity problems or secure their short-term cash positions.

Factoring involving receivables which have not yet matured for suppliers of LGU

Suppliers of LGU transfer receivables which have not yet matured to Magellan pursuant to an assignment contract.

The profit of Magellan consists in commission or a discount on the purchase price of the receivables.

Revolving loans for hospitals

Magellan grants revolving loans (with a total limit and limit per tranche, tranches paid on demand and repaid within agreed deadlines) and overdraft loans (with a total limit which can be freely drawn and repaid during the loan period) to Healthcare Providers, LGUs, or other private entities (including suppliers), and borrowers undertake to repay the loans on agreed terms. In certain cases, in addition to interest/commission on drawn tranches, Magellan is also entitled to a commission on execution of the loan agreement.

Consortium for suppliers of Centers

Magellan enters into framework contracts with suppliers of Centers, pursuant to which the parties undertake to cooperate in public procurement proceedings announced by Centers, including in the context of a consortium (represented either by Magellan or by a supplier *vis à vis* the Center).

Where the supplier is entitled to receive all or part of a payment from the Center:

- the supplier declares to the Center that it remits all payments due to it from the Center to Magellan (and the Center is required to accept the remittance) and that such payments made to Magellan will satisfy the supplier's receivables against the Center; or
- the supplier undertakes to forward all payments received to Magellan.

In its judgment on 2 June 2016, the Polish Supreme Court ruled that a consortium agreement should only be agreed upon for the mutual execution of the parties obligation's and not for one of the parties to acquire rights to the receivables. The judgment points out that such agreements may be in violation of Article 54 of the Act on Healthcare Activities, therefore making the transfer of receivables invalid.

See "*Risk Factors—Certain products provided by Magellan were invalidated by the Polish Supreme Court*".

Sales of promissory notes

Magellan also finances Centers through promissory notes. Centers issue promissory notes for certain amounts, and Magellan acquires these at a certain price. If Magellan has existing receivables due from the Center, it sets them off against the Center's receivable due from Magellan for the issue of a promissory note.

Guarantees

Magellan offers products collectively referred to as "Guarantees". Through these Guarantees, Magellan agrees to secure or pay suppliers' receivables due from Centers. As a result of paying a Center's debt to suppliers, by law Magellan acquires the supplier's receivables against the Center.

On 9 January 2015, the Polish Supreme Court held in one case that the Guarantee product was invalid on the grounds that the aim of the Guarantee was to change the Center's creditor from the supplier in question to Magellan and therefore the transfer of the receivable to Magellan itself was invalidated; this was ruled to be in contravention of Article 54 of the Act on Healthcare Activities. After the Polish Supreme Court's ruling, the legal status of the receivable reverted to the original owner and therefore, such supplier's receivable against

the Center legally remains unpaid because Magellan's payment under the Guarantee is no longer recognized. Under arrangements made between Magellan and the supplier in question, the supplier's receivable will be used to satisfy Magellan's claim against the supplier for the return of payment originally made under the Guarantee.

Magellan filed motions in 2015 with a Polish Constitutional Tribunal regarding the constitutionality of Article 54 of the Act on Healthcare Activities. However, considering the legal uncertainties regarding the article in general, particularly following the unfavorable ruling mentioned above, uniform Polish Supreme Court practice and the uncertainties regarding claims to the Polish Constitutional Tribunal, Magellan has had to reformulate this product so that it is permissible under Article 54 of the Act on Healthcare Activities.

See "*Risk Factors—Certain products provided by Magellan were invalidated by the Polish Supreme Court*".

Ancillary services

Magellan also offers ancillary services including recourse factoring for small and medium-sized enterprises.

Investment and equipment financing

The investments and equipment financing of healthcare providers is carried out by Magellan's wholly owned subsidiary MEDFinance.

MEDFinance closely cooperates with suppliers or sellers on the healthcare market and helps healthcare providers (both public and private) finance their development (equipment and infrastructure). In this context, MEDFinance offers the following services: (i) instalment sales; (ii) leasing; (iii) consortium (with equipment suppliers and infrastructure contractors) and (iv) sales and parallel loans.

Magellan had a Spanish subsidiary, with offices in Barcelona (Spain), Carrier Mestre Nicolau, 19, established at the end of 2014. Such a subsidiary aimed to operate in the field of non-recourse factoring of receivables claimed towards entities of the Spanish Public Administration.

Acquisition of Magellan

On 18 December 2015 we purchased 100% of the share capital of a Polish-registered vehicle Mediona spółka z ograniczoną odpowiedzialnością, whose registered office is in Warsaw, Poland ("**Mediona**"), from the company TMF Poland sp. zoo., a Polish company belonging to the TMF Group, which provides, among other things, corporate secretarial services, accounting and tax assistance, and support to the management of personnel of Magellan, for an amount of PLN 11,495.60.

On 8 January 2016, Mediona, announced to the market and the Polish Financial Market Supervisory Authority its intention to launch the Magellan acquisition. Magellan is a Polish joint stock company operating in the financial services market for the health sector and public sector and has been listed on the Warsaw Stock Exchange from 2007 to 6 December 2016. Its registered office is in Łódź (Poland). Magellan has a share capital of PLN 2,016,011.10, consisting of 6,720,037 non-preferred shares with a par value of PLN 0.30 each. Magellan is a non-bank financial institution and, accordingly, is not subject to the Polish regulations applicable to banks. The closing price of the Magellan shares was equal to PLN 57.98 on the day prior to the launch of the tender offer (*i.e.* 7 January 2016), corresponding to a PLN 389,627,745 capitalization (equal to €89,832,573 according to the exchange rate applicable on the same day). Furthermore, the volume weighted average price relating to the three months prior to the launch was equal to PLN 55.91 (as indicated in the tender offer document).

Magellan is the parent company of the Magellan Group, which comprises a group of subsidiaries incorporated in Poland, the Czech Republic and Slovakia as well as a branch in Spain. The acquisition of the Magellan Group falls within our commercial and geographical diversification strategy which, with the internal growth of purchased receivables, has led to a substantial increase of profits, with significant impacts on capital ratios, which decreased in the first nine months of 2016 by more than 7 percentage points as an effect of the acquisition, and on business structures managing the grown operational complexity.

In May 2016, the Bank of Italy authorized us to acquire Magellan and the tender offer in respect of all the share capital of Magellan was finalised. The Magellan Transaction was completed in June 2016.

On 5 July 2016, Mediona appointed the new Supervisory Board of Magellan.

On 30 September 2016 Magellan's shareholders' meeting resolved to proceed with the delisting of shares issued by Magellan, and consequently on 1 December 2016 the Warsaw Stock Exchange issued a resolution on delisting of Magellan's shares from the main market on the Warsaw Stock Exchange with an effective date as of 6 December 2016.

On 30 November 2016 the extraordinary shareholders' meeting of Magellan resolved upon the merger by incorporation between Magellan (as acquiring company) and Mediona (as target company). On 16 December 2016, the registry court registered a merger between Mediona and Magellan, and Banca Farmafactoring became a direct shareholder of Magellan holding 6,720,037 shares of Magellan, corresponding to 100% votes in Magellan. In the course of the transaction, the Issuer also purchased an amount of own shares held by Magellan equal to PLN 23 million.

Future plans in respect of Magellan

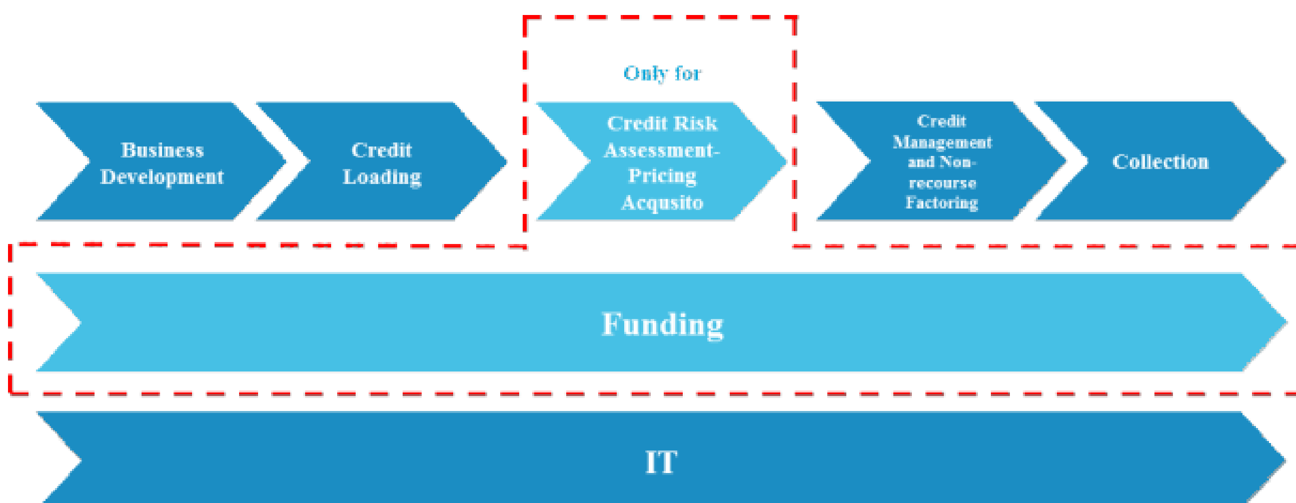
We intend to support Magellan to expand the services offered to its and our customers and to reduce Magellan's cost of funding. Through the acquisition of Magellan, we aim to continue its growth strategy by: (i) taking advantage of cross selling opportunities, (ii) expanding its business in three fast-growing markets (Poland, Czech Republic and Slovakia), (iii) increase its customer base, and (iv) consider the expansion of its business in other adjacent markets.

Our Traditional Activities and Business Model

We operate according to a single organizational model across our geographies in Italy, Spain and Portugal. Our traditional business model is also largely uniform, where our Credit Collection Management activities differ from our Non-Recourse Factoring activities only by virtue of certain activities which are specific to Non-Recourse Factoring.

Our organizational model is set out in the following chart, which shows the essential components of the value chain and the integration of the value chain with: (i) a highly technological information system that manages most of the process, and (ii) the funding activity which is functional to our Non-Recourse Factoring activities.

The following chart shows the various stages of our value chain:



The value chain of our Credit Collection Management and Non-Recourse Factoring activities is composed of the following main stages: business development; credit loading; credit risk assessment-pricing-purchase (for Non-Recourse Factoring only); credit collection management; and collection. The entire value chain is supported by our information system, and for Non-Recourse Factoring activities only, our funding.

Business Development

Our business development activity targets both existing and potential new clients.

We carry our business development in respect of our existing clients initially by taking advantage of the following cross-selling opportunities: (i) geographical, by offering clients the same services in different geographical areas where both we and our clients operate, and (ii) product-related, by offering Non-Recourse Factoring services to clients who already use our Credit Collection Management services. Moreover, we develop business with existing clients by offering a range of services which are constantly updated and tailored to the specific needs of each client.

In order to acquire new clients by expanding our services into new business segments, we have strengthened our commercial structure to support such expansion (increasing our salespeople from 3 in 2013 to 12 in 2016 in Italy, as well as to 6 in Spain) and in Italy and in Spain we have entered into distribution agreements with other financial institutions, brokers, other factors, insurers and reinsurers, which generated volumes of new receivables on these markets totalling €88.7 million and €15.2 million, respectively, for the year ended 31 December 2016.

In particular, as of 31 December 2016, in Italy we were party to 19 agreements with brokers and 14 agreements with financial institutions (with a total of 2,404 branches) which generated volumes of €88.7 million in total. In Spain we generated volumes equal to €15.2 million through alternative distribution channels (brokers).

On the Italian market, our commercial relationship with clients has traditionally arisen from a contract for the provision of Credit Collection Management services pursuant to which the client issues in our favor a mandate for the management, recovery and collection of one or more receivables due from Debtors. Thanks to our knowledge of our clients, their specific financial needs and the types of receivables due from Debtors, we are able to extend our relationship arising from our Credit Collection Management activity to also encompass our Non-Recourse Factoring activities.

Our clients usually execute, in addition to the contract for the provision of Credit Collection Management services, a framework agreement relating to our Non-Recourse Factoring services, which does not normally impose any obligations on us to acquire the receivables under management, and instead regulates our relationship with clients on an ongoing basis in the event that all or part of the receivables are assigned to us.

Less frequently, clients will only require either our Credit Collection Management services or our Non-Recourse Factoring services.

Any client who receives our Credit Collection Management services and does not require our Non-Recourse Factoring services, will normally only enter into a management contract and a frame agreement with us.

In the context of our Non-Recourse Factoring activities, we establish two types of relationship with our clients:

- *One shot*: the contract refers to a specific purchase transaction and terminates upon payment of the last invoice purchased.
- *Ongoing*: if the client needs to assign receivables on a regular basis, the relevant Non-Recourse Factoring contract will not refer to a specific transaction and will instead regulate the relationship between the parties on an ongoing basis, also in respect of any subsequent transfer of receivables carried out by the same parties, without having to enter into any additional *ad hoc* agreements. The agreements will come into effect upon the acceptance of the purchase offer and will terminate upon payment of the last invoice purchased.

We constantly monitor our client satisfaction both (i) directly, through our sales network, and (ii) since 2007 indirectly, by appointing independent third party experts to carry out customer satisfaction surveys.

Credit Loading

At the beginning of our relationship, a client sends us the load flow of receivables to be transferred. Subsequently, the invoices relating to such receivables are loaded onto our factoring system (the "**Factoring System**").

The factoring system verifies the accuracy of the load flow received and reports any anomalies to be corrected. Therefore during the credit loading phase, our credit management team is constantly in touch with the client in order to resolve the anomalies reported and to obtain further clarifications, if needed.

The Factoring System verifies the accuracy of the documentation received and reports any anomalies to be corrected. Therefore, already during the credit loading phase, we are able to proceed with the client to verify the accuracy of the information and documents received.

Following completion of the credit loading stage, we manage and update our accounting ledgers through our Factoring System.

Non-Recourse Factoring: Credit Risk Assessment-Pricing-Purchase

Our business model contemplates, in respect of our Non-Recourse Factoring business only, a phase that entails credit risk assessment, pricing and credit purchase activities, as described in more detail below:

Credit Risk Assessment

We manage the credit risk of Debtors (*i.e.* the risk of insolvency of assigned debtors, which mainly include entities belonging to the national healthcare services and public administration sectors) as well as the credit risk of assignors (*i.e.* the risk connected with the existence and/or with the value of transferred receivables) in accordance with the applicable regulation (the "**Credit Regulation**"), which describes the technical rules and determines the organizational and control safeguards.

This activity comprises the following phases, the outcome of which must be successful before we can proceed with the purchase offer:

(i) Preliminary assessment of the potential assignor

During this phase, we evaluate the assignor's position, taking into account certain parameters such as its financial stability, competitive position, invoice quality and compliance with current anti-money laundering regulations and applicable regulatory provisions.

(ii) Selection of the eligible Debtors

- For Public Healthcare Debtors in Italy, Spain and Portugal and for Spanish Public Administration Debtors, our credit analysis and Debtor selection are mainly based on data processed through our database which, with respect to Italy, contains historical data on the timing for payment collected in the course of our business, compliance with settlement agreements and progress of any legal proceedings.
- For Public Administration Debtors in Italy, the following distinction must be made: (a) in the case of central or regional public administration agencies, our credit analysis is predominantly based on data collected through our database; (b) in the case of municipalities, our credit analysis is based initially on an internal scoring system and is subsequently verified by our analysts on the basis of accounting data, the most recent accounting information available for each municipality, the performance of our portfolios and other publicly available information; and (c) for other public sector agencies (i.e. provinces, and other entities) our credit analysis is based on individual evaluations on the basis of accounting data, the most recent accounting information available for each agency and other publicly available information.
- For Other Debtors, each year we assign a total cap to the purchase of receivables from this category of debtors and to each entity within such category. Our preliminary assessment of Other Debtors is primarily based on the analysis of their accounts and accounting positions, the data of the Bank of Italy reporting system (*centrale rischi*), our performance and qualitative aspects such as reports produced following on-site site visits at the Debtors' facilities.

We manage all of our preliminary assessment phases in respect of clients and debtors through an electronic credit application.

(iii) Credit risk assessment

Our credit risk assessment activity consists in the assessment of debtors who owe the receivables to be purchased by us. On the basis of qualitative and quantitative parameters (such as the age of the receivable owed by the relevant debtor), we select the receivables that we may acquire from those owed by Debtors deemed to be eligible. The portfolio composed of such receivables is subsequently assessed by our business unit responsible for its pricing.

In Italy, the receivables that we purchase within the context of our non-recourse factoring business have a low risk profile concerning relative disputes for the following reasons: (i) the risk connected to faults and flaws of the transferred titles of credit is at a minimum level as, at the moment of assignment, the assignor undertakes to reacquire the receivable should the documentation relating to the certainty and enforceability of the receivable be lacking or insufficient for the purposes of proceeding in the relative payment collection; and (ii) for the reasons explained below, the consent of the debtor is not required for the purposes of credit assignment. Furthermore, the assignors are almost always clients of high standing reducing dilution risk.

In Spain and Portugal, the risk of disputes concerning the purchased receivables is mitigated by the fact that the assigned receivables are usually accompanied with a certification of "*conformidad*" (in Spain) or a "*numero de compromiso*" (in Portugal), certifying that the relative payment is due by the respective debtor.

In both Spain and Portugal, although there is a risk of purchasing receivables without the provided certification ("*conformidad*" in Spain and "*numero de compromiso*" in Portugal), this risk is limited by the fact that: (i) in Spain, as the contractual conditions applied by the Group provide that the invoices in relation to which "*conformidad*" is not given by the debtors may be returned to the assignor, the possibility of invoices without "*conformidad*" constitutes an unlikely and temporary event; and (ii) in Portugal, no purchases of receivables are carried out concerning receivables originally without a "*numero de compromiso*".

Furthermore, the risk related to limitation periods of claims is limited: (i) in Italy, by automatically (and at least once a year) sending notices to the assigned debtors that interrupt the statutory limitation periods; (ii) in Spain these same notices are sent on a quarterly basis; and (iii) in Portugal reminders are regularly sent and the credit management procedures provide the initiation of legal action once certain levels of payment delay have been reached.

In more detail, in Italy, for the purposes of the assignment of the receivables, the consent of the assigned debtor is not always sought, the latter being only able challenge the assignment within 45 days from the date of the relative notification. However, we do not consider this to represent a profile of risk as: (i) according to settled case law, the possibility of an assigned debtor's refusal to accept the assignment does not apply to receivables relating to a supply of goods or services which has already been carried out (which is the case with all of the receivables we purchase); (ii) the healthcare entities which refuse to accept the assignment do however consent to the granting of a credit collection mandate that the clients provide us with so, therefore, the flows of payment would not be compromised; and (iii) even if the debtor were not to acknowledge the aforementioned mandate and should continue to make payments directly to its respective supplier, we would be able to collect the relevant payment from the same supplier (as is provided in an ad hoc contractual clause) being therefore exposed to a more residual risk.

Pricing

Following the risk assessment phase, we set the price of the receivables to be transferred to us, which we then propose to each client in the context of our Non-Recourse Factoring business.

During this process, we analyze the portfolios to be acquired on the basis of: (i) the assessment made by our business units responsible for assessing the quality of our clients and assigned Debtors, and (ii) the payment history contained in our database.

We pay particular attention to the DSOs of each entity belonging to the national healthcare services and public administration in order to correctly determine the pricing and value of the acquired receivables. For Italian Public Healthcare Debtors, we have detailed and extensive historical data on payment delays which we have recorded in thirty years of activity in respect of each ASL and AO.

Our pricing activities are carried out by a specialized business unit which has a reporting function which is separate from the commercial and credit management functions and relies on our Factoring System for any data flows received from other business units, including data relating to: (i) management costs, (ii) assessments on the timing for the collection of receivables, (iii) assessments on the quality of the credit exposure, and (iv) the availability and cost of funding.

With respect to receivables due from the tax authorities, we rely on due diligence activities carried out by external experts in order to estimate the timing for payment and assess their credit quality.

Thanks to this application we are able to determine the price of the receivables to be acquired through an objective assessment. More specifically, the price is generally equal to the nominal value of the receivable net of our commission fees, calculated as described above.

If the client accepts our pricing proposal, we send them our final proposal and, if this is accepted, we proceed with the purchase.

Purchase of receivables

The Group's purchasing of receivables is predominantly focused on overdue receivables; at the time of purchase, a new expiry date is set by us for our internal purposes that coincides with the expected collection time. The expired exposures therefore refer to receivables that hadn't yet been collected within the timeframe estimated when they were purchased.

Italy

We usually enter into an authenticated and registered private written agreement with our clients in order to have evidence of their representations in respect of the assigned receivable.

In this way we receive full and exclusive entitlement of the receivables purchased on the basis of factoring agreements pursuant to Articles 1260 and following of the Italian Civil Code, as well as to Law No. 52 of 21 February 1991 (the "**Factoring Law**") held by certain businesses operating in the healthcare system in exchange for their supply and/or hospital healthcare services to the benefit of ASLs, AOs and national healthcare system's entities operating in different regions of the Republic of Italy.

Our business consists in the non-recourse purchase of receivables (*i.e.* without guarantee of debtor solvency) on a revolving basis (*i.e.* until a certain the amount provided under the relevant factoring agreement has been reached) and relates only to receivables originated by supplies already carried out. Pursuant to the Italian regulatory framework, the assignment of receivables is notified to the assigned debtors in accordance with article 69 of the Royal Decree No. 2440 of 18 November 1923 and notified pursuant to Law No. 53 of 1994. Pursuant to Article 106 of the Legislative Decree No. 50 of 2016, for the completion of the purchase of receivables, the expressed consent of the assigned debtor is not required, being sufficient that the assigned debtor does not refuse the sale of the relevant receivables within 45 days. For more information see "*Description of the Issuer—Our Markets*".

Pursuant to the agreement the assignor undertakes a number of obligations towards the Issuer:

- to deliver to the Issuer, within 30 business days from the request, copy of the invoices (where available) related to the assigned receivables together with all relevant documentation concerning the same receivables, as well as a copy of the agreements, orders and order confirmations, upon the acquisition of the original assignors;
- to transfer to the Issuer the benefits deriving from possible guarantees against the risk of deterioration or non-recovery of the asset provided under the relevant agreement from which the receivables arise;
- to cooperate as closely as possible with the Issuer, providing any relevant news in respect of debtors' solvency and, in general, any oppositions, claims, complaints, judicial or extrajudicial requests and on-going disputes.

Receivables purchased by the Issuer are subject to a limitation period of 10 years (as regard the capital) or 5 years (as regards the notes); the Issuer neutralizes the risk of time-barring by soliciting payment at least once a year through the Factoring System which automatically sends a notice that interrupts the limitation period.

Receivables purchased by the Issuer pursuant to the Factoring Law may be assigned by the Issuer to the vehicles for the securitization of receivables pursuant to and in accordance with Law No. 130 of 30 April 1999 (the "**Vehicle**" and the "**Securitization Law**", respectively).

As of the date of this Prospectus, a single securitization transaction structured with Deutsche Bank Group is currently underway. The transaction, originally executed on October 2012 and subsequently renewed, is a non-recourse assignment of receivables towards the Local Healthcare Authorities and the Hospital Authorities, aimed at diversifying funding activities. For more information, See "*Risk Management—Securitization transactions*".

The assignment to the Vehicle is generally on a non-recourse basis for a certain assignment price that will be paid by the Issuer in change for the issuance of securitization securities to be underwritten by professional investors (the "**Securitization**").

The assignment of receivables within the context of a Securitization is generally a block transaction pursuant to the provisions set out under the Securitization Law and the Consolidated Banking Act (and the relative legal and regulatory framework of implementation). Thus, receivables are selected on the basis of pre-defined objective criteria (recognizable by the assigned debtor) and so as to guarantee their legal and financial uniformity. In addition, for the purpose of enforcing the assignment against the assigned debtors, the following activities will be carried out:

- publication of the notice of receivables assignment in the Official Journal ("*Gazzetta Ufficiale"*) of the Republic of Italy;
- the registration of the assignment in the relevant companies register;
- due to the assigned debtors being public entities, each assignment agreement will be executed through a public deed ("*atto pubblico*") or authenticated private deed ("*scrittura private autenticata*") and is notified to each public administration in its quality of assigned debtors, pursuant to and in accordance with the articles 69 and 70 of the Royal Decree of 18 November 1923 and relative implementing provisions.

In particular, the Securitizations were executed by the Group between the years 2011 and 2013, before the amendments to the Securitization Law which currently expressly excludes the application of Articles 69 and 70 of the Royal Decree of 18 November 1923 and related implementing provisions to the assignment carried out in the context of securitization transactions.

Portugal

Receivables are purchased through an authenticated private deed pursuant to Decree Law No. 171 of 1995 and the purchase is notified in accordance with Article 583 of the Portuguese Civil Code. Neither an express acceptance by the debtor is necessary nor a denial is requested.

Receivables are mainly purchased together with the "*numero de compromiso*", i.e. a certification of the existence of the receivable. For more information, See "*Description of the Issuer—Our Markets*".

The purchases without "*numero de copromiso*" have been executed on assignor of a primary standing. In addition, in the agreements entered into with Portuguese costumers, we generally include a clause providing that the assignor guarantees the compliance of the assigned documents with the law regulating the "*numeros de compromiso*" (Law of 22 February 2012).

As of 31 December 2016, out of the total amount of receivables purchase, an amount equal to €20.4 (15%) was purchased without "*numero de compromiso*".

For the purpose of interrupting the limitation period of the purchased receivables solicitations are periodically sent and credit collection management procedures provide for the filing of legal actions where certain thresholds of delay in payment to be reached.

The limitation period in Portugal lasts 20 years in relation to capital and interest and 5 years as regards the notes of debt (documents that we issue the event of a debtor's late payment) and will be interrupted by a notice of injunction ("*Injunção*"). Under Portuguese law, the notice procedure is carried out through a national IT platform of the Portuguese Ministry of Justice.

Spain

The purchase of receivables by Farmafactoring España takes place through the subscription of a private deed. Pursuant to article 218 of the Law of Public Sector Contracts (Royal Legislative Decree 3 of 14 November 2011), the notary public also notifies the credit transfer transaction to the assigned debtor and, therefore, the notification automatically signifies the debtor's acceptance.

Purchased receivables held towards the public administration are notified to debtors, who, according to article 218 of the Law of Public Sector Contracts must automatically acknowledge the transaction and cannot oppose it.

Usually Farmafactoring España reviews credit quality and related documentation, especially with respect to receivables with a lower value. In any case, in Spain the executed agreements provide, as in Italy, the possibility to transfer the credit to the transferor if any credit defect is detected. In addition, in Spain the risk of disputes concerning the purchased receivables is reduced as the purchased receivables are usually certified, through a certification of "*conformidad*", as certain debt owed by the relevant debtor from a financial, legal and administrative standpoint. For more information, See "*Description of the Issuer—Our Markets*".

The right to claim a debt, pursuant to article 1964 of the Spanish Civil Code, as amended, is time-barred after 5 years if no claim has been filed. In order to prevent the prescription of the right, all unpaid invoices are claimed by Farmafactoring España through a formal "administrative process" on a quarterly basis, which, under Spanish law, is the condition requested in order to initiate any legal action against the public administration.

Credit Portfolio Management

We carry out credit portfolio management in respect of receivables managed on behalf of third parties as well as receivables acquired and then managed on our own behalf, in the following areas:

Activities with respect to our clients

These activities involve: (i) the management of the administrative aspects of the credit management process, including the disclosure provided to clients in relation to potential issues in connection with the receivable, (ii) the identification and removal of any obstacles to payment (for example, where invoices are challenged by Debtors), and (iii) discussing with clients any actions that need to be taken with respect to Debtors, including returning receivables to clients, as contractually provided in the context of our Non-Recourse Factoring business.

We offer our clients tailored services such as electronic invoicing and the certification of receivables:

- *Electronic invoicing*. In Italy we offer our clients the option to use the "*SmartFlowPA*" platform to transmit electronic invoices directly to the Interchange System ("**SDI**") and to Debtors. This platform is specifically developed to make the transmission and monitoring easier and is managed directly by us internally. Through this platform we also offer clients the option to use systems for the storage of invoices in electronic format;
- *Certification of receivables*. This service, introduced in 2008 and re-launched in 2012 (falling within the scope of Italian Legislative Decree No. 35/2013 and Italian Legislative Decree No. 66/2014), is aimed at: (i) enabling the central government to quantify with a greater degree of certainty the amount of the public administration's debt, and (ii) assisting creditors in the management and collection of

their receivables, also through the sale of certified receivables. We are able to follow the entire certification process on the platform for the certification of receivables (PCC).

The communication and exchange of documents and information between us and our clients can take place through *Farm@link,* our application platform that interfaces directly with the clients' information systems through the exchange of structured data flows.

In Portugal, where we operate under the freedom to provide services, we use two external credit management companies.

Activities with respect to debtors

These activities involve:

- *Verification of receivables*. We regularly carry out the verification of receivables, which involves: (i) checking the relevant documentation, (ii) sending payment reminders, (iii) reconciling ledgers, (iv) managing any dispute regarding the documentation relating to the receivables, (v) on-site visits at the Debtors' facilities, and (vi) preparing settlement proposals and/or repayment plans.

  (a) In Italy we perform credit management through two internal units (one for Public Healthcare Debtors and Other Debtors and the other for Public Administration Debtors) and an external network, composed of companies external to the Group, called "credit verification companies" ("**Sovec**") located throughout Italy. Sovec are responsible for ascertaining and verifying any obstacles to payment of the invoices, and verify the size of the receivables due from each Debtor by means of on-site visits at the Debtors' facilities.

  Sovec are an operational extension of the administrative support activities that we offer clients and Debtors. Sovec obtain the information necessary for our credit management purposes, without having any executive or decision-making powers or any authority to collect payments. The Sovec's activities are coordinated and supervised by one of our specialized business units.

  Sovec perform periodic Debtors' visits. One section of *Farm@link* specifically relates to the activities of Sovec and manages the scheduling of on-site site visits at Debtors' facilities, the submission of reports after the visits, flows of requests, responses/lack of response, flows in the state of progress of the payments on the accounting ledger and other documents.

  With specific reference to the receivables managed in the context of our Non-Recourse Factoring activity, in order to comply with any accounting and/or regulatory requirements applicable to us, each managed receivable is attributed a risk index on the basis of the documentation received, the age of the receivables and any available information. The allocation of the risk index is automatic and is generated by the Factoring System which, for each receivable, also proposes a corresponding management procedure.

  (b) In Spain, the verification of receivables carried out by Farmafactoring España primarily relates to contested invoices for which the debtor does not provide "*conformidad*" (compliance). Once we identify the reasons why the Debtor will not validate the invoice (incorrect amount, need for additional documentation, etc.): (i) with regard to our Credit Collection Management activity, Farmafactoring España will enter the information received into a ledger and the client will automatically receive an email updating them on the situation, and Farmafactoring España will maintain contact with the Debtor in order to obtain the "*conformidad*" of the invoice and (ii) with regard to our Non-Recourse Factoring activity, Farmafactoring España will normally ask the client to provide the Debtor with additional documentation and will maintain contact with the Debtor until "*conformidad*" of the invoice is obtained. Where the "*conformidad*" not to be obtained/verified, the related invoice will be returned to the assignor.

  (c) In Portugal, in the context of our Non-Recourse Factoring activity, our Credit Collection Management business unit periodically carries out on-site visits at Debtors' facilities (SPA and EPE hospital structures); alternatively, we may appoint external agents (similar to Sovec companies) on a one-off basis to carry out this task. In any event purchases of receivables originally lacking of the

"*numero de compromiso*" or of the certification that the receivable is owed to the assigned debtor will not be concluded.

- *Monitoring*. We perform timely, efficient and constant monitoring of receivables through a dedicated reporting system analyzing such receivables in the required level of detail. The Credit Regulation requires the constant monitoring of the credit risk of each Debtor, in order to verify our maximum exposure to them and, in particular, to those deemed to be more risky.

- *Reminder*. We send reminders and define repayment plans in respect of principal amounts and late payment interest. The reminder is sent to Debtors through a document which is automatically generated by the Factoring System and highlights the overdue invoices for which a reminder has not yet been sent. Moreover, each year the Factoring System automatically generates for each Debtor a reminder document for all receivables not paid. In addition to these annual and intra-annual reminders, when necessary, we transmit additional *ad hoc* reminders by various means, for example by telephone, email or fax.

    (a) *Italy*: We send reminders to Debtors either directly or through Sovec, in both cases based on a specific and consolidated territorial competence.

    (b) *Spain*: Farmafactoring España sends reminders to Debtors directly through internal business units.

    (c) *Portugal*: At the end of each calendar year, we send payment reminders to all Debtors, providing a list of overdue invoices.

- *Settlement Agreements*. In order to collect receivables, we may enter into settlement agreements with Debtors pursuant to which we may grant payment extensions or agree to reduce the amount of late payment interest due from them. The procedure for starting the negotiations aimed at reaching a settlement differs depending on whether the receivables are managed on our own behalf, or on behalf of our clients. If we manage receivables acquired in the context of our Non-Recourse Factoring business on our own behalf, we can independently weigh up the advantages of starting negotiations with Debtors, whereas if we manage receivables on behalf of third parties, the settlement will take place on terms agreed upon with the client. Where the relevant receivable has been acquired by us, the settlement will take place on terms determined by us in advance for each position. Settlement agreements in respect of receivables acquired by us will never include waivers or discounts of the principal amount due.

- *Legal Actions*. We rely on our internal structure as well as (for Italy, Spain and Portugal) a network of professionals who deal with the following activities: (i) commencing legal proceedings, (ii) recording the proceedings in the Factoring System and continuously updating their status, (iii) identifying the best route from a legal perspective to collect the receivable, (iv) identifying the law firms to be involved, (v) monitoring the progress of the proceedings, and (vi) recording in the Factoring System the amounts collected in respect of principal, interest and legal expenses at the end of the proceedings. Even if we have already taken legal action against a Debtor, we may still reach a settlement with them.

Italy

If the receivables under management have not been fully or partly collected during the previous phase involving reminders, settlements or out-of-court repayment plans, we will take legal action against the relevant Debtor. The procedure for taking legal action is essentially the same whether we manage receivables on our own behalf or on behalf of third parties, although in the latter case, we must agree all decisions in respect of this phase with the relevant client.

In Italy, lawsuits aimed at credit recovery are generally brought before the Court of Milan.

Even if sometimes the debtors challenge the territorial jurisdiction of the court requested by the Issuer, in the majority of cases the courts do not find in their favour (and, should they instead find in their favour, the credit recovery still would be possible).

In the context of receivables whose recovery has been started through a petition for injunction (equal to €541), as of 31 December 2016 the oppositions filed by the relevant debtors totaled to approximate amount of €82.8, equal to 15% of disputed receivables.

At the end of the trials concerning debtor objections, we recover in any case the total amount of the receivable, represented by invoices relating to supplies which have been entirely and duly carried out by the original supplier (*i.e.* assignor). Where the receivables should not to be certain, for a fixed amount and overdue, it is returned to the original supplier (assignor).

Spain

In Spain, court jurisdiction is determined on the basis of where the debtor (the public administration) has its registered office. Legal action is taken following the sending of a remainder letter for all unpaid invoices, starting the formal "administrative procedure" (a necessary requirement in order to file the relative lawsuit against the public administration).

Portugal

In the event of debtor opposition or enforcement proceedings, court jurisdiction is also determined on the basis of where the debtor has its registered office.

In the context of receivables whose recovery has been started by means of the petition for injunction (equal to €6.9 million), as of 31 December 2016 the percentage of receivables in relation to which debtors have filed an opposition is minimal (3.1%) so therefore, almost all of the receivables have been paid (those unpaid totaling to less than €500 thousand).

Collection

We carry out this activity in the context of both our Credit Collection Management and Non-Recourse Factoring businesses. In particular, we: (i) manage and constantly update the tables containing the conditions relating to our relationship with assignor clients, (ii) reconcile the collections, and (iii) resolve outstanding amounts and process credited amounts in respect of receivables on a daily basis. In order to carry out this activity, we also use the "Expert" system, which supports the reconciliation of collections carried out in the context of our Non-Recourse Factoring business that remain within the Group and of those carried out in the context of our Credit Collection Management business that are credited to the client. Collection management also entails invoicing commission and/or expenses to clients.

As shown above, the development of the Group's credit collection business has allowed the Group to increase its revenue in different areas in which traditional business activities are carried out, as is represented in the table below, with express indication of the amount of revenues related to receivables whose recovery has been carried out via legal action (the "**Disputed Receivables**").

	As of 31 December	
	2016	**2015**
	(in € millions)	
Collected Amount	**6.285**	**5,522**
Italy	5.836	4,931
of which Disputed Receivables	-	-
Spain	408	537
of which Disputed Receivables	-	-
Portugal	40	54
of which Disputed Receivables	-	-
Collected Amount from Non-Recourse Factoring	**2.995**	**2,527**
Italy	2.564	1,956
of which Disputed Receivables	363	*345*
Spain	391	517
of which Disputed Receivables	-	-
Portugal	40	54
of which Disputed Receivables	7.7	*4*

Information System

With respect to our Traditional Activities, we manage our receivables through a specialized and efficient IT platform. We have developed internally, in part by integrating aspects with systems under user licenses, an *ad hoc* IT system which gives us a competitive advantage in the Southern European Markets in terms of (i) speed

and efficiency of our activities and (ii) integration with information systems of creditors (or assignors) and debtors. This has allowed us over the years to reduce management costs and to benefit from economies of scale, also by using the so called "*Expert System*". For example, in the year ended 31 December 2016, we managed electronically with our IT platform almost €4.3 million invoices throughout Italy, Spain and Portugal.

In the last three years, we have made significant investments (as described in more detail below) to support our expansion in other European markets (Spain and Portugal) and the development of new products (such as term deposit accounts in Italy, Spain and Germany) which have additional efficiency margins before reaching full capacity.

The technological architecture of our systems is a competitive advantage of our business, both in terms of hardware and software, and was designed to ensure continuity in the provision of services, operational stability and the provision of high quality services for end users, including us internally and clients and Debtors externally. Our technological architecture also supports the activities of Farmafactoring España and our activities in Portugal.

Our application infrastructure relating to our factoring services and our "*Conto Facto*" term deposit account consists of: (i) proprietary or internally developed software systems for the management of factoring, (ii) third party systems acquired under user license for the management of all activities supporting our core business, and (iii) services performed by Consorzio Servizi Bancari Soc. Cons. a r. l. ("**CSE**") for the management of: our banking activities and, in particular, our "*Conto Facto*" term deposit account, the *Archivio Unico Informatico* ("**AUI**"), anti-money laundering, supervisory reports to the Bank of Italy, communications to the Italian taxation authorities (*Agenzia delle Entrate*), payments and data regarding clients and Debtors.

With the launch of our "*Cuenta Facto*" term deposit account in Spain in August 2015, we added to the above infrastructure the integrated services provided by the outsourcer *Rural Servicios Informatico Sociedad Civil* ("**RSI**").

A front end system interacts with the services provided by RSI for the management of banking activities and, in particular, of our "*Cuenta Facto*" term deposit account, the supervisory reports to the Bank of Spain, anti-money laundering and the management of payments.

We have developed our own "proprietary" software application systems for the management of our factoring activity mainly as a result of: (i) the absence on the market of Enterprise Resource Planning ("**ERP**") solutions for the management of our factoring activity and (ii) a unique business model characterized by features which are not compatible with standardized solutions. This decision still represents, today, one of our key competitive advantages in terms of customization and flexibility of the services provided and ability to adapt to the needs of the market.

The software application systems acquired under a "user license" and ICT banking services provided by CSE and RSI are fully integrated with the "proprietary" modules, assuring the efficiency of the operating processes and the mitigation of corporate operational risks. The integration is accomplished both through real time connections and through "batch" procedures, depending on operational needs.

Over the past five financial years, we have experienced certain minor information system malfunctions none of which caused a material business interruption, including, for example, (i) a breakdown in our storage mechanism, causing an unavailability to approximately half of our email accounts, which were restored to full working order within eight business hours following the breakdown; (ii) minor failures in our robotic library back-up which interrupted our backup/restore activities for short periods and (iii) breakdowns of four application systems for approximately two and three business hours, respectively, due to the zero day virus infecting our server briefly.

Proprietary systems

The "core" of the IT architecture is the Factoring System, resulting from our know-how and experience accumulated over thirty years in this field. Such system was developed in a flexible manner so that it can take into account and adapt to the evolution of the business and regulatory changes.

The Factoring System governs the entire cycle of the receivables management activity, from when the receivables are uploaded onto our ledgers to when they are collected, and allows for the automatic management of a high number of documents while employing a small number of resources.

The Factoring System is integrated with other proprietary systems, such as:

- The "**Expert system**", which automatically processes the payment records received (in the year ended 31 December 2016, more than 390,000) and produces the accounting documents collection proposals;
- The "**Statistical system**", which manages the monthly consolidation of numbers relating to our credit management activity (*e.g.* receivables loaded, non-recourse receivables acquired, receivables collected, DSOs, late payment days, pending legal actions etc.) and gives material support in the pricing phase in the context of our Non-Recourse Factoring business;
- The "**Financial Results**" system, which calculates, for purchases of non-recourse receivables, the final margins of each transactions and lot; and
- The "**Farm@link system**", designed and developed to facilitate the flow of structured information between:
    - assignors and the Issuer or Farmafactoring España and *vice versa*, by predetermined deadlines, with regard to ledgers, payments and requests pertaining to challenges against them; and
    - companies of the Italian national healthcare system and us, in real time or by predetermined deadlines, with regard to accounting ledgers and payment mandates.

Our other proprietary systems include websites in the following areas: (i) institutional websites, containing general information about us and Farmafactoring España, (ii) the front ends of "Conto Facto" and "Cuenta Facto" for our Italian and Spanish clients with regard to the opening of accounts and their operational management and for the use of internal users and of the outsourcers Caricese and Qipert with regards to the BPM (Business Process Management), (iii) the client portal with reserved client access, (iv) the Factoring Web whose B2B applications enable us and Farmafactoring España to interact with our main counterparties (clients, external law firms that manage the collection of receivables through the courts, Sovecs and service providers of receivable securitizations).

Systems under User License and ICT banking services

The remaining part of our information system includes systems under "user license" and of ICT services performed by CSE and RSI, integrated, when necessary, with the proprietary systems and with each other. These systems can be grouped in: (i) Management Systems (such as, by way of example, Treasury and Finance, Corporate Banking, Accounting, Budget and Reporting, Internal Audit), (ii) Communication Systems with the Bank of Italy, Bank of Spain and tax authorities (reporting to the Bank of Italy reporting system (*centrale rischi*), the Bank of Spain, anti-money laundering, Italian tax authorities), and (iii) Main Bank Services (CSE and RSI) (General Database, Treasury, General Accounting, Current Accounts, Liens, Transfers, Document Management).

During 2015, the following new systems under user license were introduced: (i) management system of the electronic credit line procedure, (ii) Customer Relationship Management and (iii) Data Analysis and Reporting System for Risk Management (SAS). During 2016, the following new systems under user license were introduced: (i) management of the intranet of the company, and (ii) management of the performances of the employees (MBO).

Information System Security

Security and data protection is a top priority for us. For many years we have had an Information Security Management System ("*Sistema per la Gestione della Sicurezza delle Informazioni*" or "**SGSI**") in accordance with applicable regulations and with the industry's international best practice, in particular the ISO 27001:2013 and ISO 27002:2013 standards.

Information security systems operate according to the three principles defined by best practice (Availability, Integrity and Confidentiality). Control systems have been implemented to prevent the loss (backup) or alteration (antivirus, Web/URL filtering) of data, external access to the IT systems (IPS, firewall, HTTPS, VPN), access to the IT systems by internal personnel (authentication systems, access policies, management of system administrators according to applicable regulatory requirements).

Business Continuity and Disaster Recovery Plan

In accordance with regulatory provisions and with the ISO 27001:2013 and ISO 27002:2013 standards, we have adopted, within our SGSI (Information Security Management System), a Business Continuity and Disaster Recovery plan. Moreover, to reduce the risk of interruption to our operations and to assure the restoration of critical computerized processes within pre-set time intervals in emergency situations, we have developed sites and technological infrastructures that can ensure the continuity of our business operations, backup systems and connections and systems for the protection of our corporate networks.

Funding

With regards to the entire cycle of the Non-Recourse Factoring activity, we fund the acquisition of our receivables portfolio through a combination of: (i) committed or irrevocable credit facilities including bilateral bank loans issued by individual credit institutions; (ii) revocable credit facilities granted by credit institutions; (iii) structured finance transactions secured by transfers of receivables to securitization vehicles and factoring facilities and/or collaboration agreements with factoring companies; (iv) capital markets funding, for example, through the issuances of the €300 million bond in June 2014 and €150 million bond in June 2016; (v) collection of savings from the public in Italy, Spain and Germany through our Online Deposits; (vi) interbank market; (vii) REPO refinancing operations using the MTS (*Mercato all'ingrosso dei Titoli di Stato*) platform guaranteed by Cassa di Compensazione e Garanzia S.p.A. and/or with the Eurosystem of the European Central Bank through collateralized bank assets (*Attivi Bancari Collateralizzati* or *A.BA.CO*); and (viii) own resources.

Our treasury and internal finance team ensure that our available funds are sufficient to cover the purchase of receivables through the funding resources listed above and that we maintain a balance between our sources and uses.

As of 31 December 2016, the financial resources resulting from the banking organization wholesale funding and from the issuance of debenture bonds, with reference to the parent company, was equal to €2,115million, compared with €1,764 million as of 31 December 2015.

As of 31 December 2016 the total available funding amounted to €3,152 million (compared to €2,182 million as of 31 December 2015), calculated taking into account approximately € 817 million deposited via "*Conto Facto*" and "*Cuenta Facto*" (net of accrued interest) and the wholesale funding of the Magellan Group resulting from the issuing of bonds and credit facilities for a total amount of € 219 million (of which approximately 87% was in PLN). As of 31 December 2016 we used a total amount of €2,291 million over the total available funding, €183 million of which were attributable to Magellan and its subsidiaries.

Government bonds and repo

Since 2014, after obtaining a banking license, we have been able to reduce the cost of funding by entering into securities transactions. In accordance with our policies, our securities portfolio is composed of government securities exclusively issued by European Union Member States (as of 31 December 2016 it only included Government Bonds issued by the Republic of Italy), which must reflect specific ratings by External Credit Assessment Institutions ("**ECAI**") recognized by the Banking Supervisory Authority. As of 31 December 2016 our securities portfolio is composed of government securities for a total amount of €2,014.4. The acquisition of securities classified as HTM is linked to our committed and unsecured funding realized through the interbank channel, bond issue and collection of savings through our Online Deposits. The amount and duration of our HTM securities must not exceed the maximum amount and duration specified for each form of funding/collection to which such securities are linked, at the date of acquisition of such securities.

The same securities are used for refinancing activities via Open Market Operations Auctions held by the ECB or in repo transactions mainly carried out on the MTS platform. At present, there is not a liquidity risk due to

the fact that the "full allotment" regime which is currently in place and provides the complete and guaranteed fulfilment of the ECB of liquidity requests made by banks against the transfer of eligible assets. Our current government bonds policy provides for an update at the end of the "full allotment" regime.

The refinancing of government bonds generally does not entail significant additional risks concerning Group liquidity in relation to the present full allotment condition made available by the ECB (procedure for the ECB Auctions introduced in 2008 following the liquidity crisis, which provides a fixed interest rate set by the ECB and a full awarding of the amount requested by the single counterparties). The weight of the securities and debt arising from their refinancing is relevant solely in nominal terms but in reality it consists in an activity aimed at optimizing the cost of funding and the management of the treasury position of the Issuer.

The further downgrading of the Republic of Italy's creditworthiness may lead to a further decrease in the value of the held government bonds. For those government bonds held in portfolio and classified as AFS, this further decrease would not have any impact on our capital requirements as we have adhered to the fair value exemption on own funds up to 1 January 2018. In relation to the refinancing activity of the securities portfolio, larger reductions and guarantee margins could be applied, on a case to case basis, with a consequent increase in the costs of managing these activities.

€300.0 Million Senior Notes due 2017

On 12 June 2014, we issued a series of €300.0 million 2.75% senior notes due 2017 which are listed on the Irish Stock Exchange. The 2017 Notes were unsecured and not guaranteed. The proceeds of the 2017 Notes were used for general corporate purposes. The terms and conditions of the 2017 Notes are governed by English law.

Morgan Stanley & Co. International PLC acted as lead manager in connection with the subscription of the 2017 Notes on the issue date and the subsequent placement; pursuant to the Agency Agreement, Citibank, N.A., London Branch acts as fiscal agent and paying agent.

Ranking

The 2017 Notes are senior obligations that rank *pari passu* in right of payment with its existing and future indebtedness that is not expressly subordinated to the 2017 Notes, senior in right of payment to its future indebtedness that is expressly subordinated to the 2017 Notes, and effectively subordinated to all of our existing and future indebtedness and our subsidiaries' other obligations that are secured by property and assets, to the extent of the value of the property and assets securing such obligation.

Interest, Payment Date and Maturity

The 2017 Notes bear interest at a fixed rate of 2.75% per annum, payable annually on 12 June of each year. Unless previously redeemed or purchased and cancelled pursuant to their terms and conditions, the 2017 Notes will be redeemed at their principal amount on 12 June 2017.

Optional Redemption

We have the right to redeem the 2017 Notes in full at any time at their principal amount, together with interest accrued to the date fixed for redemption if, as a result of any change in the tax laws of the Republic of Italy, we become obliged to pay additional amounts on the next payment date and such obligations cannot be avoided by taking reasonable measures.

Negative Pledge

The terms and conditions of the 2017 Notes contain an undertaking that limits our and our Material Subsidiaries' ability to create, or permit the creation of, any security interest upon the whole or any part of our present or future undertakings, assets or revenues in order to secure: (i) any present or future notes or similar securities, or (ii) any guarantee and/or indemnity granted in relation to any notes or similar securities, without: (a) at the same time or prior thereto, securing the 2017 Notes equally and ratably therewith or (b) providing another form of security for the 2017 Notes approved by an extraordinary resolution of the noteholders.

For the sake of clarity, under the 2017 Notes and the 2021 Notes, "material subsidiary" (a "**Material Subsidiary**") means every subsidiary pursuant to Article 2359 of the Italian Civil Code which represents at least 10% of the operating income of the Group, the Group's consolidated income before tax, the Group's consolidated assets, to be determined on the basis of the data relayed in the most recent consolidated financial statement of the Group and the most recent financial statement of the subsidiary (as well as the financial statement of the latter's subsidiaries), having regard also to the any calculation adjustments provided under the terms and conditions of, respectively, the 2017 Notes and the 2021 Notes.

As of the date of this Prospectus, all of our subsidiaries are considered to be restricted subsidiaries under the terms and conditions of the 2017 Notes.

Events of Default

The terms and conditions of the 2017 Notes contain events of default-upon the occurrence of which we may be required to immediately repay the notes, together with accrued interest yet to be paid at the relevant date-that are however customary for such forms of financing. Said events of default are subject to materiality qualifications and exceptions, baskets and grace periods, as appropriate, and include, by way of example: (a) failure to pay any amount of principal or interest in respect of the 2017 Notes when due; (b) failure to perform or comply with any obligation arising under the terms and conditions of the 2017 Notes, unless cured within 30 days from the date on which we received written notice in such regard; (c) cross-default concerning other indebtedness (including that of our subsidiaries), as long as the relevant amount is over €20,000,000.00; (d) failure to comply with the obligations arising from court sentences concerning amounts exceeding the €20,000,000.00 thresholds, in case the payment is not processed within 45 days or the different term set out therein; (e) insolvency (including *moratoria* and recovery plans relating to indebtedness entered into with the relevant creditors) concerning either us or our Material Subsidiaries; (f) discontinuance or change concerning either the entirety or a material part of our business activities, unless it consists in an expressly provided instance of permitted reorganization; (g) dissolution or winding up events concerning either us or our Material Subsidiaries, unless it consists in an expressly provided instance of permitted reorganization; (h) failure to take necessary action in order to perform our obligations arising under the 2017 Notes and/or to ensure that such obligations are valid, enforceable and legally binding.

Under the 2017 Notes, a "permitted reorganization" means any corporate reorganization, merger, demerger, contribution in kind, restructuring or other similar transaction, carried out while solvent and with the occurrence of the following conditions (i): the transaction has been approved by the extraordinary meeting of the noteholders; (ii) in relation to one of our Material Subsidiaries, *provided that* the transfer of the assets, regardless of its nature, is carried out to our benefit or the benefit of another Material Subsidiary; (iii) in case of discontinuance of business activity pursuant to the terms and conditions of the 2017 Notes, *provided that* the transfer of assets, whatever it is made, is carried out at arms' length and at a price equal to the fair value of the transferred assets, as confirmed by our Board of Directors; (iv) to the extent that we are concerned, as long as the transfer of assets, regardless of its nature: (a) is made in favor of a bank which is authorized to operate in Italy or in another Member State of the European Union (the "**Substitute**"); (b) the Substitute takes on the obligations of principal debtor in relation to the 2017 Notes (executing every deed and/or document, including an act of replacement, which may become necessary (the "**Relevant Documents**"); (c) the documents and the other certificates and declarations specified, respectively, in the terms and conditions of the 2017 Notes are entered into; and (d) a notice is given to the noteholders within 15 days from the signing of the Relevant Documents.

€150.0 Million Senior Notes due 2021

On 21 June 2016, we issued a series of €150.0 million 1.25% senior notes due 2021 (the "**2021 Notes**") which are listed on the Irish Stock Exchange. The 2021 Notes were unsecured and not guaranteed. The proceeds of the 2021 Notes were used for general corporate purposes. The terms and conditions of the 2021 Notes are governed by English law.

Citigroup Global Markets Limited acted as lead manager in connection with the subscription of the 2021 Notes on the issue date and the subsequent placement; pursuant to the Agency Agreement, Citibank, N.A., London Branch acts as fiscal agent and paying agent.

Ranking

The 2021 Notes are senior obligations that rank *pari passu* in right of payment with its existing and future indebtedness that is not expressly subordinated to the 2021 Notes, senior in right of payment to its future indebtedness that is expressly subordinated to the 2021 Notes, and effectively subordinated to all of our existing and future indebtedness and our subsidiaries' other obligations that are secured by property and assets, to the extent of the value of the property and assets securing such obligation.

Interest, Payment Date and Maturity

The 2021 Notes bear interest at a fixed rate of 1.25% per annum, payable annually on 21 June of each year. Unless previously redeemed or purchased and cancelled pursuant to their terms and conditions, the 2021 Notes will be redeemed at their principal amount on 21 June 2021.

Optional Redemption

We have the right to redeem the 2021 Notes in full at any time at their principal amount, together with interest accrued to the date fixed for redemption if, as a result of any change in the tax laws of the Republic of Italy, we become obliged to pay additional amounts on the next payment date and such obligations cannot be avoided by taking reasonable measures.

Negative Pledge

The terms and conditions of the 2021 Notes contain an undertaking that limits our and our Material Subsidiaries' ability to create, or permit the creation of, any security interest upon the whole or any part of our present or future undertaking, assets or revenues in order to secure: (i) any present or future notes or similar securities, or (ii) any guarantee and/or indemnity in relation to any notes or similar securities, without: (a) at the same time or prior thereto, securing the 2021 Notes equally and ratably therewith or (b) providing another form of security for the 2021 Notes approved by an extraordinary resolution of the noteholders.

As of the date of this Prospectus, all of our subsidiaries are considered to be restricted subsidiaries under the terms and conditions of the 2021 Notes.

Events of Default

The terms and conditions of the 2021 Notes contain events of default-upon the occurrence of which the we may be required to immediately repay the notes, together with accrued interest yet to be paid at the relevant date-that are however customary for such financing. Said events of default are subject to materiality qualifications and exceptions, baskets and grace periods, as appropriate, and include, by way of example: (a) failure to pay any amount of principal or interest in respect of the 2021 Notes when due; (b) failure to perform or comply with any obligation arising under the terms and conditions of the 2021 Notes, unless cured within 30 days from the date on which we received written notice in such regard; (c) cross-default concerning other indebtedness (including that of our subsidiaries), as long as the relevant amount is over €20,000,000.00; (d) failure to comply with the obligations arising from court sentences concerning amounts exceeding the 20,000,000.00 thresholds, in case the payment is not processed within 45 days or the different term set out therein; (e) insolvency (including *moratoria* and recovery plans relating to indebtedness entered into with the relevant creditors) concerning either us or our Material Subsidiaries; (f) discontinuance or change concerning either the entirety or a material part of our business activities, unless it consists in an expressly provided instance of permitted reorganization; (g) dissolution or winding up events concerning either us or our Material Subsidiaries, unless it consists in an expressly provided instance of permitted reorganization; (h) failure to take necessary action in order to perform our obligations arising under the 2021 Notes and/or to ensure that such obligations are valid, enforceable and legally binding.

Under the 2021 Notes, a "permitted reorganization" means any corporate reorganization, merger, demerger, contribution in kind, restructuring or other similar transaction, carried out while solvent and with the occurrence of the following conditions (i): the transaction has been approved by the extraordinary meeting of the noteholders; (ii) in relation to one of our Material Subsidiaries, *provided that* the transfer of the assets, regardless of its nature, is carried out to our benefit or the benefit of another Material Subsidiary; (iii) in case of discontinuance of business activity pursuant to the terms and conditions of the 2021 Notes, *provided that*

the transfer of assets, whatever it is made, is carried out at arms' length and at a price equal to the fair value of the transferred assets, as confirmed by our Board of Directors; (iv) to the extent that we are concerned, as long as the transfer of assets, regardless of its nature: (a) is made in favor of a bank which is authorized to operate in Italy or in another Member State of the European Union (the "**Substitute**"); (b) the Substitute takes on the obligations of principal debtor in relation to the 2021 Notes (executing every deed and/or document, including an act of replacement, which may become necessary (the "**Relevant Documents**"); (c) the documents and the other certificates and declarations specified, respectively, in the terms and conditions of the 2021 Notes are entered into; and (d) a notice is given to the noteholders within 15 days from the signing of the Relevant Documents.

Terms and conditions of our main loan agreements

We are a party to a number of loan agreements (the "**Loan Agreements**") which make short-term revolving type unsecured lines of credit available to us for a maximum principal amount which cannot exceed €100,000,000.00 (the "**Lines of Credit**"). The Loan Agreements and Lines of Credit are designed to provide financial resources for our ordinary business operations, as well as support our general cash requirements.

Each Line of Credit can be split into one or more tranches, for minimum amounts and the drawdown periods specified, from time to time, in the Loan Agreement, during the entire availability period of the Line of Credit (generally, until the date which falls one month or one week before the final deadline of the actual Line of Credit). In some cases, the Loan Agreement also specifies the maximum number of drawdowns which can concurrently exist for the Line of Credit or the maximum number of utilization requests which can be made monthly to the lending bank.

Each drawdown must be repaid at the specified due date for the drawdown period, subject to our right to renew it in conformity with the provisions of the Loan Agreement; all drawdowns for a Line of Credit must be repaid in full at the final due date of the Line of Credit. Interest accrues at a variable interest rate equal to the Euribor plus a fixed component and, generally, interest is paid at the due date of the related drawdown period.

The Loan Agreements provide the payment, on a quarterly basis, at the terms and conditions specified therein, of a fee if the Lines of Credit are not fully used by the Issuer.

Voluntary Early Redemption/Voluntary Cancellation

The Loan Agreements include a right for us to cancel, in full or in part, the Lines of Credit and/or to yearly redeem, in full or in part, the drawdowns, by giving prior written notice to the lending bank. In case of cancellation or partial early redemption, the minimum amount of the cancellation or early redemption should also be specified. There are no provisions for any fee and/or penalty, except in certain cases, the payment of any break costs for the voluntary prepayment/cancellation.

Mandatory Early Redemption

Some of the Loan Agreements require us (if necessary, usually following a written request from the lending bank) to apply to mandatory early redemption, in whole or in part, the entire amount of the proceeds deriving from acts of disposal of corporate assets which do not come under our core business, nor are functional for it (other than expressly permitted sales), unless we reinvest such income in our core business (or in similar and/or related business activities) within a certain time limit following the collection date.

In addition, in such cases, in the event of our change of control for reasons other than listing and the consequent exercise by the lending bank of its right to withdraw from the Loan Agreement, we must prepay outstanding loans.

Representations and Warranties

We make certain representations and warranties which we consider to be market standard for operations of this kind and include, *inter alia*, (i) due incorporation and existence, (ii) power and capacity, (iii) the absence of liens on assets (with the exception of expressly permitted liens), (iv) the absence of material pending or threatened disputes, (v) tax compliance, (vi) accounting compliance and (vii) absence of significant events.

Covenants and reporting obligations

The Loan Agreements contain certain covenants which we consider to be market standard for operations of this kind.

Among our reporting obligations are, *inter alia*, the obligation to, within relevant deadlines: (i) deliver a copy (which may also be provided using an electronic format) of both certified and consolidated financial statements, as well as half-year reports (the latter also at a consolidated level, where applicable); (ii) send the agenda of the extraordinary shareholders' meetings as well as a copy of the relative minutes; (iii) notify the lending bank of certain extraordinary transactions, as well as of the disposal of corporate assets and goods (in general, the relative clauses refer to transactions which may potentially entail the possibility for an early repayment and which are not expressly allowed under the terms and conditions of the relevant loan agreement); (iv) inform the lending bank of any change of control that occurs and, in certain cases, also of changes in the shareholding structure that do not have an impact on the control structure (*provided that* the change in control event does not occur within the context of a listing on a stock exchange); and (v) promptly notify the lending banks of the occurrence of events capable of having a material adverse effect on our business (*i.e.* events that may negatively impact our capital, economic and financial status).

The Loan Agreements also provide specific obligations of a non-informational nature pursuant to which we (and also, in some instances, certain companies of the Group), subject to customary exceptions, agree: (i) not to carry out extraordinary transactions or acts of disposal of assets other than those expressly permitted (unless the relevant lending bank provides its prior written consent in such regard, where applicable); (ii) to reinvest the income resulting from certain transfers of goods in typical activities or in similar and/or related activities; and (iii) not to create, or allow the creation of, liens and pledges on assets other than the liens and pledges expressly permitted (*i.e.* "negative pledge" clause).

In addition to the above-mentioned commitments, some of the Loan Agreements also require us to comply, for the entire duration of the loan, with certain financial ratio covenants, compliance with which is tested every six months and is certified in a compliance certificate to be sent within the same time deadlines provided for the transmission of the consolidated financial statements or the half-year reports. These covenants include, *inter alia*:(a) the levels of yearly profits; (b) the ratio between (i) bad debts (as reflected in the financial statements) and (ii) non-recourse receivables purchased outright; (c) the ratio between (i) funds recorded in the financial statements and (ii) non-recourse receivables purchased outright, calculated on the basis of various factors set out under the applicable legal and regulatory framework; and (d) the ratio between (i) the value of common equity (*capitale primario*) and (ii) the value of the risk-weighted assets (*attività ponderate*) (each as defined according to the applicable European legislation).

The following table sets out the data concerning the provided threshold values in connection with each financial parameter that are outstanding as of the date of this Prospectus and come from the most recent company audit.

	Requirement	**Covenant**
Profit Before Extraordinary Management	-	positive
Bad Debts / Outstanding Total	-	≤ 4%
Total Own Funds / Non-recourse Weighted Outstanding	weighting coefficient = 20%	> 15% / 20%
	weighting coefficient = 50%	> 12%
	weighting coefficient = 100%	> 9%
CET1 Capital Ratio		≥ 8 / 12%

	As of 31 December 2016
	(*in €millions except for percentages*)
Profit Before Extraordinary Management	102.2
Bad Debts / Outstanding Total	0.6%
Total Own Funds / Non-recourse Weighted Outstanding	32.7%
CET1 Capital Ratio	16.4%
Total Capital Ratio	16.6%

The prescribed financial parameters in the Issuer's financing contracts are all autonomous, meaning that a contract that has ended early can be identified from just one missing parameter.

Events of default

The Loan Agreements include a series of events of default (which we believe are customary and, where appropriate, contain customary cure periods/clauses), including, inter alia: (i) a state of insolvency, or being subject to bankruptcy proceedings (or similar proceedings); (ii) cross-default (and, in certain cases, cross-acceleration) for amounts above given materiality levels (usually €20 million); and (iii) failure to fulfil certain obligations with which we much comply (including, the violation of any of the financial parameters which may be set out in the Loan Agreement). Upon an event of default, the lending bank will have the right, depending on which clause is triggered, to accelerate repayment and/or to withdraw from and/or terminate the Loan Agreement with immediate repayment of any existing drawdowns relating to the Lines of Credit and to also pay any amounts otherwise due pursuant to the relevant Loan Agreement.

Magellan Bond Programs

PLN 750 million bond program placed by mBank S.A.

On 17 January 2013, Magellan, as issuer, entered into a program agreement with mBank S.A. ("**mBank**") as issue agent, payment agent, depositary and dealer with respect to bond issues for the total nominal value of PLN 750 million (the "**mBank Bonds**"). Magellan has the right to issue several series of bonds for an indefinite period of time. The bond program enables Magellan to issue coupon bearer bonds denominated in PLN and/or in Euro. The bonds are unsecured. The terms and conditions of the bonds are governed by Polish law. The terms and conditions of the bonds do not provide any key financial covenants. Other covenants under the bond program include Magellan's obligation, among others, to (i) provide the dealer with the information memorandum and any required update of the information contained in the information memorandum; (ii) inform the dealer of change in management board composition and relevant power of attorneys within relevant deadlines, (iii) respect the provisions of law; (iv) deliver to a dealer a copy of the quarterly report, half-year report and annual financial statements; and (v) notify the dealer of the disposal of corporate assets and goods having a material adverse effect on financial situation of Magellan. The terms and conditions of the bonds contain events of default that are customary for such financings, which are subject to materiality qualifications and exceptions, baskets and grace periods, as appropriate, and include: (i) enforcement or seizure of property for an amount exceeding 5% of Magellan's equity, (ii) unsecured asset ratio not lower than 120%, (iii) failure to pay any amount in respect of the bonds when due, (iv) financial indebtedness for an amount exceeding PLN 20 milion if not paid when due or is declared due and payable before the original maturity date, (v) default in the performance or observance of any obligation under the terms and conditions of the bonds, (vi) delivery of a judgment to pay an amount exceeding 5% of Magellan's equity, (vii) submission of false representations and/or warranties, (viii) insolvency, (ix) cessation of business, (x) asset disposal causing severe deterioration of Magellan's financial situation, (xi) the issuance of secured bonds, (xii) change of control over Magellan, (xiii) no listing on ATS within 90 business days after the issuance date and (xiv) exclusion of bonds from the ATS market. Upon the occurrence of any event of default, the bondholders can call for an immediate redemption of bonds, which causes such bonds to be immediately due and payable. The bonds become immediately due and payable upon the commencement of proceedings to wind up Magellan.

On 28 October 2016, Magellan obtained a waiver for mBank regarding the event of default which would have been triggered by Magellan's delisting. At the same time, waivers were received from the noteholders of the 2017 Notes and the 2021 Notes as well as the counterparts of some loan agreements to the benefit of the Issuer designed to confirm that cross-default clauses set forth therein could be exercised in case of an event of default material to the Group, which could have been triggered by a default by Magellan under the mBank Bonds. On the basis of the positive outcome of the waiver process, the delisting of Magellan shares was no longer an event of default under the mBank Bonds and therefore no cross-defaults would be triggered. In order to complete the waiver process, the noteholders of the bonds issued by Magellan have requested that the bonds be listed on the alternative trading system ("*Catalyst*") within a period of time ranging from 2 March 2017 to 7 March 2017. As of the date of this Prospectus, Magellan has filed the relevant motions to admit the bonds to trading and has already obtained the listing of the majority of the series of the bonds. As of the date of this Prospectus, in relation to the series of bonds for which the authorization for listing is still to be

obtained, it is expected that the listing process will be fully completed by the relevant terms falling between 2 March 2017 and 7 March 2017.

As of the date of this Prospectus, approximately €95.3 million of bonds have been issued (and still outstanding) under the bond program.

Magellan Loans

Magellan is a party to a six loan agreements and MEDFinance is a party to four loan agreements ("**Magellan Loan Agreements**").

Covenants and reporting obligations

The Magellan Loan Agreements contain certain covenants which we consider to be market standard for operations of this kind.

Under the Magellan Loan Agreements, the borrower is obliged to meet certain reporting obligations, which include: (i) delivery of certified financial statements and consolidated financial statements together with the resolutions approving such financial statements, (ii) informing the lender about any legal, shareholder structure, business activity changes and other events which may have an impact on the business (in particular regarding loans, guarantees or security encumbering assets), (iii) delivery of documents proving valid encumbrance of security, (iv) delivery of any information and documents which are necessary to make an economic and financial assessment of the borrower, (v) informing the bank about insolvency or liquidation proceedings, (vi) informing the bank about any event of default and (vii) providing information on court proceedings exceeding the amount of PLN 20,000,000.

The Magellan Loan Agreements include other obligations of a non-informational nature to which the borrower agrees to: (i) utilize the credit line in accordance with the respective agreement, (ii) allow the lender's employees to check whether the credit line was used in accordance with the agreement and the economic and financial situation of the borrower, (iii) add additional security if its economic or financial situation worsens, (iv) not to grant guarantees for other entities exceeding a certain per cent. of the net assets for the last financial year, (v) not to adopt resolutions on a share capital decrease, (vi) to comply with provisions of other agreements between the borrower and the relevant lending bank, (vii) secure incomes from its business activity on an indicated in the loan agreement level, (viii) transfer its business activity payments through the bank accounts, (ix) not to sell, lease or otherwise dispose of its assets except for cases of ordinary course of business, (x) not to be subject to any corporate transformation, (xi) not to make substantial changes in the scope of its economic activity, (xii) not to enter into any facility agreements, guarantees, loans and not to encumber or dispose of any assets which are the bank's security or are necessary to conduct its business without a written notification sent to the bank, (xiii) ensure monthly income in the current account at a level indicated in the loan agreement and (xiv) ensure that all transactions with affiliates are at arm's length.

The following chart shows the financial ratio covenants provided by the Magellan Loan Agreements of the companies of the Magellan Group.

Magellan Covenant	Requirement*	As of 31 December 2016
Debt to assets ratio (data available from 31 March 2017)	≤ 80%	-[1]
Debt to own funds	≤6	4.22
Net profit margin	≥0	30[2]
Total balance-sheet liabilities and reserves to total equity and loans from affiliates, less goodwill and trademarks	< 5.5:1/6:1	4.22
Ratio of the claims due to Magellan and its affiliates overdue more than 90 days to aggregate claims due to Magellan and its affiliates	<10%	2.1

* ratio assessed on the basis of Magellan's standalone data.

(1) Data not available as of 31 December, 2016.

(2) Data in PLN millions.

MEDfinance

Covenant	Requirement
Total balance-sheet liabilities and reserves to total equity and loans from affiliates, less goodwill and trademarks	< 7.5:1/8:1
Ratio of the claims due to Magellan and its affiliates overdue more than 90 days to aggregate claims due to Magellan and its affiliates	<10%

Events of default

The Magellan Loan Agreements include a series of events of default, including, *inter alia*: (i) failure to pay any amount of principal or interest on the credits when due, (ii) default in the performance or observance of any obligation under the loan agreement, (iii) cross-default: (a) an event of default under any other agreement between Magellan or an entity from its group and the lender or an entity from its group), (b) any financial indebtedness of a member of the group in an amount exceeding PLN 20,000,000 is not paid when due and such payment is delayed for more than 10 days or is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default, (c) any commitment for any financial indebtedness to a member of the group is reduced, cancelled or suspended as a result of the event of default or (d) any creditor or member of the group becomes entitled to declare any financial indebtedness of any member of the group due and payable to its specified maturity as a result of the event of default (any default arising from the delisting is not included in the PLN 20,000,000 limit and will not cause an event of default), (iv) closing the bank account, (vi) insolvency proceedings, (vii) material adverse change, (viii) failure to meet the financial covenants, (ix) change of control, (x) a decrease of the security instruments' value, (xi) Magellan's economic or financial situation worsens and may jeopardize the loan repayment, (xii) if the borrower or the guarantor (if any) is provided with other facilities without the lender's consent which, in the lender's opinion, will threaten the payment of the receivable, (xiii) (with respect to the Magellan Loan Agreements where MEDfinance is the borrower and Magellan is the surety) the shareholders of the borrower or the surety adopt a resolution on or another corporate act is undertaken for the purpose of: (a) disbursement of a dividend by the borrower; (b) redemption or purchase of the shares of the borrower (except for implementation of the manager option program); (c) division, consolidation, change of the form of business activity, or corporate reorganization of the borrower or the surety (except for the merger with Mediona and other merger with the lenders written consent), or (d) liquidation or cessation of business activity by the borrower or the surety, and (xiv) any indebtedness of the borrower or the surety in the total amount exceeding PLN 20,000,000 is not repaid when due and payable, becomes immediately due and payable before the original due date, or the creditor acquires the right to declare the debt immediately due and payable, with a reservation that the event referred to above, caused directly and only by the adoption of a resolution by the general meeting of the surety's shareholders on abolishment of the dematerialization of shares in the surety and consent from the Polish Financial Supervision Authority to restore the shares in the surety to the form of a document (abolishment of dematerialization of shares) does not constitute an event of default (the event referred to above caused directly and only by the delisting will not be included in the amount of PLN 20,000,000).

Upon an event of default, the lending bank will have the right to (i) terminate the agreement, (ii) suspend the borrower's right to utilize the overdraft facility (iii) request additional security or (iv) accelerate its loan receivables. In case of termination of the agreement, Magellan will have to pay the receivables by the last day of the termination period at the latest.

In one of the Magellan Loan Agreements, the bank reserves the right to assess whether the organizational and business events impacting the legal and financing standing of the borrower increase the risk of default potentially leading to the termination of the agreement. If Banca Farmafactoring S.p.A. ceases to own directly or indirectly at least 50%+1 of the shares in the share capital of the borrower, the bank will be entitled to terminate the credit agreement with a 30-day notice of termination.

There are no specific predefined parameters that will allow the financing institution to provide its own assessment in respect of the increase in Magellan's risk of default. The financing institution may verify all relevant financial covenants for the purpose of evaluating the aforementioned risk through only the financial statements prepared and published by Magellan.

Security instruments

Some of the Magellan Loan Agreements are secured. The claims under the Magellan Loan Agreements may be secured by one or more of the following security instruments: (i) a blank promissory note, (ii) a registered pledge on the receivables or rights, (iii) a declaration on submission to enforcement up to an indicated amount allowing the creditor to commence enforcement of the debt after obtaining an enforcement order from a court without conducting full proceedings before the court, (iv) a financial pledge over the funds deposited on a bank account, (vi) a security assignment of receivables, (vii) a power of attorney to operate Magellan's current account in the bank and its other existing or future accounts in the bank, and (viii) a guarantee.

Outsourcing

Outsourcing contract with CSE Consorzio Servizi Bancari Soc. Cons. A R.L.

On 20 February 2013, we entered into an outsourcing contract with CSE, which, as amended, provides for the furnishing, development, integration and management of IT systems related to certain activities connected to our banking operations including, in particular, the management of our "*Conto Facto*" systems and online collections related to restricted term deposit accounts provided to retail and corporate clients (the "**CSE Outsourcing Contract**").

In addition, the CSE Outsourcing Contract provides for the provision of systems required for the management of certain assets in our portfolio, incoming and outgoing payments to the national interbank network and supervisory reports to be submitted to the Bank of Italy, as well as other services (such as the management of back-up systems and assistance with disaster recovery).

Pursuant to the CSE Outsourcing Contract, the parties must comply with applicable laws and, in particular, the supervisory instructions (*istruzioni di vigilanza*) issued by the Bank of Italy also to ensure operational continuity in case of an emergency.

As consideration for the services provided, we must pay CSE an annual fee based on the number of active clients and volumes deriving from term deposits.

The CSE Outsourcing Contract will expire on 21 July 2017 and does not provide for automatic renewal. The parties may agree to extend the term during the six months prior to the termination date.

Outsourcing contract with Caricese S.r.l.

On 26 June 2014, we entered into an outsourcing contract with Caricese S.r.l. ("**Caricese**"), company of the CSE group specialized in banking and financial services, for the supply of services relating to the back-office activities in connection with our Online Deposits (the "**Caricese Outsourcing Contract**"). In particular, the outsourced activities relate to the opening of accounts, the archiving of documentation received from customers of our Online Deposits and transactional activities concerning the operation of such accounts.

Conversely, we continue to handle internally activities concerning our customer relations.

Pursuant to the Caricese Outsourcing Contract, the parties must comply with applicable laws and, in particular, the supervisory instructions (*istruzioni di vigilanza*) issued by the Bank of Italy also to ensure operational continuity in case of an emergency.

As consideration for the services provided, we must pay Caricese a fee based on the number of cases managed.

The Caricese Outsourcing Contract was renewed until 31 December 2018.

Outsourcing contract with RSI-Rural Servicios Informaticos Sociedad Civil

On 1 April 2015, we entered into an outsourcing contract with RSI, as amended, for the supply, development, integration and management of information systems related to certain activities connected to our banking operations which are instrumental to the operations of our Spanish branch, including, in particular, the

management of "*Cuenta Facto*", incoming and outgoing credit transfers to and from predefined accounts, and reports to the supervisory body (the "**RSI Outsourcing Contract**").

The contract regulates the supply of two different services: (i) the license to use the IRIS system and (ii) the development and publication of Web Services.

Pursuant to the RSI Outsourcing Contract, the parties must comply with applicable laws and, in particular, the supervisory instructions (*istruzioni di vigilanza*) issued by the Bank of Italy also to ensure operational continuity in case of an emergency.

As consideration for the services provided, we must pay RSI an annual fee based on the number of active clients.

The RSI Outsourcing Contract has an initial term of three years from its date of execution, at the end of which it will be automatically renewed for a further period of three years unless either party gives notice of termination at least six months prior to expiry of the term. However, we have the right to rescind the RSI Outsourcing Contract at any time by giving at least six months' written notice. Upon termination, we will pay RSI a contractually agreed fee.

On 1 April 2015, we entered into an additional agreement with RSI for the provision of web/structural hosting, including hardware resources (servers and storage) and software (operating systems and database) to be configured according to our needs. As consideration for the services provided under this additional agreement, we must pay RSI an annual fee based on the number of managed systems and their hardware and software configuration. The provisions relating to the term of this additional agreement are the same as those under the RSI Outsourcing Contract.

Outsourcing contract with Qipert-Union de Gestion Hipotecaria S.L.U.

In connection with our banking activities instrumental to the operation of our branch in Spain, on 5 March 2015, we entered into an outsourcing agreement with Qipert Union de Gestion Hipotecaria Slu ("**Qipert**") related to back-office activities, and in particular the verification of documents, dematerialization, reporting of anomalies during the process of registration of customers, activation of new accounts, placing of incoming credit transfers, authorization of outgoing credit transfers, reporting of anomalies related to credit transfers and manual operations (the "**Qipert Outsourcing Contract**"). These back-office activities are essential to the operation and management of "*Cuenta Facto*".

Pursuant to the Qipert Outsourcing Contract, the parties must comply with applicable laws and, in particular, the supervisory instructions (*istruzioni di vigilanza*) issued by the Bank of Italy also to ensure operational continuity in case of an emergency.

As consideration for the services provided, we must pay Qipert an annual fee based on the volumes of collected receivables and the number of cases managed.

The Qipert Outsourcing Contract has an initial term of three years from its date of execution, at the end of which it will be automatically renewed for a further period of three years unless either party gives notice of termination. However, we have the right to rescind the Qipert Outsourcing Contract at any time by giving at least 60 days' written notice.

Servicing

Servicing contract with BFF Luxembourg

On 4 March 2016 we entered into a servicing contract with BFF Luxembourg aimed at meeting the requirements set out by the CRR in order to adequately report to BFF Luxembourg and consolidate relevant data of both the Issuer and the Group, and the data requested for the consolidation at the CRR level undertaken for prudential supervision purposes. BFF Luxembourg periodically reports the information relating to its Capital and Financial position to the Issuer, in order to allow the Issuer to ensure the inclusion of such data in supervisory notifications made on a consolidated basis, thus also reflecting BFF Luxembourg's position in the broader perimeter of consolidation at the CRR Level undertaken for prudential supervision purposes.

More specifically, BFF Luxembourg reports the following items to the Issuer, in a format compatible with the schemes of supervisory prudential notification and in sufficient time for the submission of the supervisory notification:

(a) on a monthly basis, standalone schemes of income statement and balance sheet for BFF Luxembourg;

(b) on a quarterly basis, standalone information on the Capital and Liquidity position of BFF Luxembourg; and

(c) information relating to BFF Luxembourg's shareholder composition (and any potential changes).

On the basis of the information provided, the Issuer provides services in support of the compilation and forwarding of the consolidated supervisory notification in the name and on behalf of BFF Luxembourg. The Issuer thereby complies with its duty of inclusion of BFF Luxembourg within the perimeter of the consolidation undertaken for prudential supervision purposes, and uses the information provided by the latter in order to monitor the relevant risk levels and comply with prudential requirements on a consolidated basis.

Finally, the contract defines procedures for cooperation and sharing of the consolidated notifications in case potential amendments are required with respect to notices previously submitted to the Bank of Italy or to other requests or communications from the competent supervisory authorities.

In order to carry out the services set out under the servicing agreement, the Issuer will be entitled to a consideration equal to €10.5 thousand to be paid on a quarterly basis.

Asset Quality

In accordance with Bank of Italy requirements, we perform impairment testing on our assets and classify them as either "performing" or "impaired". Assets with a risk of loss are classified as impaired, while all other assets are classified as performing (including assets that, although past due, show no objective indication of impairment based on internal, historical or statistical information).

Impaired assets are divided into the following categories: (i) past due exposures; (ii) unlikely to pay; and (iii) non-performing exposures. The definitions of these categories are provided by the Bank of Italy and are as follows:

(i) *Past due exposures*. Receivables are defined as "past due" when they have not been paid for more than 90 days and the payor shows some objective indication of impairment (either individually or collectively). All receivables with central administrations and central banks, public sector entities and territorial entities will be considered past due when the payor has not made any payments for any receivables owed to the Group for more than 90 days.

(ii) *Unlikely to pay*. Receivables are defined as "unlikely to pay" when the payor is assessed as unlikely to repay his credit obligation in full. The classification within the "unlikely to pay" category is not necessarily related to the explicit presence of anomalies, but rather it is linked to the presence of evidence of a debtor's risk of default. The "unlikely to pay" category combines two categories previously provided for by the Bank of Italy, namely watchlist loans and restructured loans.

(iii) *Non-performing exposures*. Receivables are defined as "non-performing" when the payor is effectively insolvent (although not yet legally insolvent) or in a similarly distressed situation, regardless of any provisions for loss set aside by the Issuer.

The tables below show the Group performing exposures and impaired assets, net of adjustments as of 31 December 2016 (including also Magellan) and 2015.

	As of 31 December			
	2016		2015	
	(*€ millions, except percentages*)			
Performing exposures	**2,437.2**	**97.5%**	**1,916.3**	**97.7%**
Non-performing exposures	12.1	0.5%	2.5	0.1%
Unlikely to pay	3.6	0.2%	-	-
Past due exposures	46.2	1.8%	43.2	2.2%
Total impaired assets	**61.9**	**2.5%**	**45.7**	**2.3%**

As a result of our debtor characteristics and the geographical distribution of our receivables portfolio, high-risk concentration is reduced, as further evidenced by a relatively low asset exposure. We made a impairment reversal for non-performing receivables in the sum of €0.01 million for the year ended 31 December 2016, compared to €0.02 million for the year ended 31 December 2015. Such provisions or reversals are assessed on a case-by-case basis considering expected recovery. We also make provisions for collective impairment tests on performing receivables. The total amount of net losses on impairment of receivable for both performing and non performing receivables was €2.2 million for the year ended 31 December 2016, compared to €1.1 million for the year ended 31 December 2015.

Capital Ratios

Under the CRD IV and the CRR the Issuer is subject to risk-based capital ratios ("**Capital Ratios**"). The Capital Ratios consist of core (Tier I) and supplemental (Tier II) capital requirements relating to the Issuer's assets and certain off-balance sheet items weighted according to risks ("**Risk-Weighted Assets**").

The table below shows the Capital Ratios of the Banking Group and of the consolidation perimeter for the purposes of the CRR as of 31 December 2016, which exceed the minimum levels prescribed under applicable regulations.

	As of 31 December 2016	
	(*€ millions, except percentages*)	
	Consolidation perimeter for the purposes of the CRR	**Banking Group**
Tier 1 capital	231.9	235.3
Additional Tier 1	1.2	0
Tier 2 capital	1.6	0
Own Funds	234.7	235.3
Risk-weighted assets	1,416.8	1,410.6
Tier 1 capital ratio	16.5%	16.7%
Total capital ratio	16.6%	16.7%

As mentioned above, on 13 January 2017, DBRS (the Group's ECAI) announced that it had downgraded the Republic of Italy's Long-Term Foreign Currency and Local Currency Issuer Ratings from A (low) to BBB (high), which has had an estimated negative effect on our regulatory capital ratios equal to approximately 3.6%. For more information, see "*Risk Factors—Risks Related to Our Business—We may be unable to meet the minimum capital adequacy requirements*".

In the light of the above, the table below shows the adjusted Capital Ratios of the Banking Group as of 31 December 2016, which exceed the minimum levels prescribed by under applicable regulations.

	As of 31 December 2016
	(*€ millions, except percentages*)
Tier 1 capital	235.3
Tier 2 capital	0
Own Funds	235.3
Risk-weighted assets	1,801.1
Tier 1 capital ratio	13.1%

Total capital ratio	13.1%

However, the impact of the downgrade is due to be fully offset in 2017 through the use of excess capital, organic capital generation and other positive elements which have already been identified (among which, our management has resolved to raise the percentage of the amount of collected late payment interest up to 45%, resulting in a one off positive capital impact of 1% of our CET 1 capital ratio). See "*Description of the Issuer––Description of Our Business—Non-Recourse Factoring*".

Our Markets

We provide Credit Collection Management services in Italy and Spain and Non-Recourse Factoring services in Italy, Spain and Portugal.

Breakdown by geographical area

The following table shows the total receivables acquired by us, as well as those solely relating to our Non-Recourse Factoring business (in both cases, also divided by country), for the years ended 31 December 2016 and 2015, respectively.

	As of 31 December	
	2016	**2015**
Total Receivables	5.8	**6.3**
Italy	5.5	5.8
Spain	0.4	0.5
Portugal	0.1	0.1
Only Non-Recourse Factoring Receivables	3.0	**3.0**
Italy	2.6	2.5
Spain	0.3	0.4
Portugal	0.1	0.1

The following table shows our total collections as well as those solely relating our Non-Recourse Factoring business (in both cases, the total amounts and the amounts divided by country), as of 31 December 2016 and 2015, respectively.

	As of 31 December	
	2016	**2015**
Collections	6.3	5.5
Italy	5.8	5.0
Spain	0.4	0.5
Portugal	0.1	0.1
Only Non-Recourse Factoring Collections	3.0	2.5
Italy	2.6	2.0
Spain	0.4	0.5
Portugal	0.1	0.1

The following tables show, with reference to Traditional Activities, the breakdown of our volumes, receivables purchased and the outstanding (management accounts), excluding Magellan, related to the business of non-recourse factoring, broken down by debtor category and geographical area, for the years ended 31 December 2016 and 2015.

	As of 31 December 2016			As of 31 December 2015		
	Volumes	**Outstanding (management accounts)**	**Receivables purchased**	**Volumes**	**Outstanding (management accounts)**	**Receivables purchased**
			(in € thousands)			
Italy	**5,476,782**	**1,838,613**	**2,606,116**	**5,764,216**	**1,797,015**	**2,481,156**
National Healthcare System	4,472,986	877,262	1,726,125	4,550,826	951,243	1,512,774
Public Debtors	893,701	924,691	826,393	1,102,277	824,665	939,586
Other	110,095	36,660	53,598	111,113	21,107	28,796
Spain	**351,266**	**139,457**	**345,554**	**467,170**	**183,434**	**449,590**
National Healthcare System	262,974	117,409	257,263	412,596	142,210	395,016
Public Debtors	88,292	22,048	88,291	54,574	41,224	54,574
Portugal	51,137	39,030	51,137	55,028	28,392	55,028
National Healthcare System	51,137	39,030	51,137	55,028	28,392	55,028
Total	**5,879,185**	**2,017,100**	**3,002,807**	**6,286,414**	**2,008,841**	**2,985,774**

The tables below show the intermediation margin related to Traditional Activities and, for the financial year 2016, Magellan activities net of intercompany items, broken down by geographical area in which we operate, for the years ended 31 December 2016 and 2015, prepared on the basis of management data processed by management.

	For the year ended 31 December 2016					
	Italy	**Spain**	**Portugal**	**Poland**	**Czech Republic**	**Slovakia**
			(in € thousands)			
Interest income and similar revenues	150,816	14,934	3,089	16,978	201	4,208
Interest expenses and similar expenses	(15,534)	(5,814)	(764)	(7,202)	(103)	(1,603)
Net interest margin	**135,282**	**9,120**	**2,325**	**9,776**	**98**	**2,605**
Net fees and commissions	4,493	145	-	(1,283)	-	-
Dividends				60		
Gain and losses on financial assets and liabilities held for trading	489	-	-	193	-	-
Fair value adjustments in hedge accounting	(1)				-	-
Gains (Losses) on disposal and repurchase of available-for-sale financial assets.	706				-	-
Operating income	**140,969**	**9,265**	**2,325**	**8,746**	**98**	**2,605**

	For the year ended 31 December 2015		
	Portugal	**Italy**	**Spain**
		(in € thousands)	
Interest income and similar revenues	4,811	138,502	18,633
Interest expenses and similar expenses	(970)	(24,092)	(3,836)
Net interest margin	**3,841**	**114,410**	**14,797**
Net fees and commissions	**-**	7,699	244
Dividends			
Gain and losses on financial assets and liabilities held for trading	**-**	46	**-**
Fair value adjustments in hedge accounting	**-**	(23)	**-**
Gains (Losses) on disposal and repurchase of available-for-sale financial assets.	**-**	872	**-**
Operating income	**3,841**	**123,004**	**15,041**

Italy

In Italy, the receivables we manage and acquire as part of our Non-Recourse Factoring business are due mostly from: (i) the Italian national healthcare system composed of: local health authorities ("**ASLs**"), public hospital trusts ("**AOs**") or regional authorities (the "**Regions**" and, jointly with ASLs and AOs, the "**Italian Public Healthcare Debtors**"), (ii) the Italian public administration (the "**Italian Public Administration**

Debtors") and, to a lesser extent, (iii) private entities (including religious organizations) active in the healthcare sector ("**Other Italian Debtors**").

As of 31 December 2015 and 2016, respectively, we had 123 and 192 customers in Italy and 5,741 and 6,688 debtors.

As of 31 December 2016, the amount of receivables deriving from our Non-Recourse Factoring business, in particular those owed by Italian Public Healthcare Debtors, was affected by the introduction of the Split Payment Mechanism regulation. See "*Risk Factors—Risks Related to Our Industry— The introduction of the so-called "split payment" of VAT for transactions involving public bodies could be extended and could impact the way we operate our business*".

The following table indicates the total amount of receivables and the amount of receivables purchased as part of our Non-Recourse Factoring activities for the years ended 31 December 2016 and 2015, divided by Italian Public Healthcare Debtors, Italian Public Administration Debtors, Italian Tax Authorities and Other Italian Debtors.

	As of 31 December		**As of 31 December**	
	2016	**%**	**2015**	**%**
	(in € millions, except percentages)			
Receivables	**5,477**	**100%**	**5,764**	**100%**
Italian Public Healthcare Debtors	4,473	82%	4,551	79%
Italian Public Administration Debtors	894	16%	1,102	19.1%
Italian Tax Authorities	135	2.4%	25	0.4%
Other Italian Debtors	110	2%	111	1.9%
Only Non-Recourse Factoring Receivables	**2,606**	**47.6%**	**2,481**	**43%**
Italian Public Healthcare Debtors	1,726	31.5%	1,513	26.2%
Italian Public Administration Debtors	826	15%	940	16.3%
Italian Tax Authorities	135	2.4%	25	0.4%
Other Italian Debtors	54	1%	29	0.5%

As part of our Credit Collection Management business, we are strategically positioned as an intermediary between clients and debtors in the healthcare and public administration sectors in Italy, and perform a high value-added service for clients considering the lengthy payment times.

In 2016, we intermediated in Italy (by providing both Non-Recourse Factoring and Credit Collection Management services) receivables due from the public sector (public healthcare and other public administrations) totaling €5.5 billion, of which 4.5 billion relate to receivables due from the Italian national healthcare system. In 2016, the forecasts for public finance included in the 2016 DEF estimate that the total expenditure on goods and services of the public sector in Italy will amount to €131.7 billion, of which €31.5 billion in relation to the Italian national healthcare system and €100.2 billion in relation to the Italian public administrations (*Source*: *Italian Ministry of Economy and Finance*).

Creditors of the Italian national healthcare system and public authority resort to our Credit Collection Management and Non-Recourse Factoring services as a result of, among other things, payment delays and other unique characteristics of the public sector. In particular, the administrative complexity of the public sector involves intricate management processes for the assessment and assignment of resources and is characterized by unique aspects of public spending financing methods.

Credit Collection Management in Italy

The Credit Collection Management services that we offer in Italy cover the entire invoice life cycle (from the creation of the receivables by electronic invoice until collection) and consist of: (i) the prior verification of receivables managed (such as the verification of receivables contested by debtors), (ii) performance of credit recovery activities, both in court and out of court, from issuing reminders to taking legal action, (iii) the accounting of collections through our "Expert" system and transfer of amounts to the client according to the contractual agreements in place between the parties, (iv) e-invoicing and storage, and (v) the performance of

certain ancillary activities, such as the transmission of update reports or the certification of client receivables due from the Italian public administration on the platform of the Italian Ministry of Economy and Finance.

The table below indicates the total volume of receivables managed by us in Italy and total collections, as well as those solely relating to our Credit Collection Management business, performed in the years ended 31 December 2016 and 2015, respectively.

	As of 31 December			
	2016		**2015**	
	(in € millions) %			
Total receivables	**5,477**	**100%**	**5,764**	**100%**
of which Credit Collection Management	2,871	52.4%	3,283	57%
Total collections	**5,836**	**100%**	**4,931**	**100%**
of which Credit Collection Management	2,564	43.9%	2,975	60.3%

Non-Recourse Factoring in Italy

On the Italian market, through our Non-Recourse Factoring activities we acquire from our clients, which are suppliers of the Italian national healthcare system, receivables due from Italian Public Healthcare Debtors, Italian Public Administration Debtors and Other Italian Debtors.

The Maturity Commissions that we receive from our clients are determined on the basis of (i) the past trends of the relevant debtors who owe the assigned receivables, (ii) the quality of the portfolio transferred by the client and (iii) the current and future cost of funding necessary for the performance of our activities.

For the year ended 31 December 2016, in Italy we recorded €144 million in Maturity Commissions and late payment interest in our balance sheet late payment interest represents a significant source of income for us. In Italy, the late payment interest rate is regulated by Italian Legislative Decree No. 231 of 9 October 2002, in implementation of Directive 2000/35/EC, and Italian Legislative Decree No. 192 of 2012, in implementation of Directive 2011/7/EU, on combating late payment in commercial transactions. As of the date of this Prospectus, the statutory interest rate is equal to 8% above the ECB's reference rate.

The amount of late payment interest accrued and legally due to us, but not already collected, in relation to purchased non-recourse receivables (in our late payment interest fund) in Italy was equal to €484 million and €415 million, for the years ended 31 December 2016 and 2015, respectively. As of 31 December 2016, part of the late payment interest fund, equal to €168 million, was transferred to our income statement.

The following table indicates the amount of receivables acquired, collected, and acquired but not yet collected (outstanding receivables) as part of our Non-Recourse Factoring activities in Italy, for the years ended 31 December 2016 and 2015, respectively.

	As of 31 December 2016	**As of 31 December 2015**
	(in € millions)	
Non-Recourse Purchases	2,606	2,481
Non-Recourse Factoring Collections	2,564	1,956
Non-Recourse Factoring Outstanding receivables	1,839	1,797

Our Non-Recourse Factoring volumes in Italy as of 31 December 2015 take into account the introduction of Split Payment Mechanism legislation.

Since 2014 the Issuer has been operating in Italy in Non-Recourse Factoring purchasing receivables from public entities involved in an insolvency proceeding and/or rebalancing, as well as receivables from public entities that could be subject to these procedures in future or public entities subject to the administrative compulsory winding up procedure, acquiring impaired assets at the purchasing date. As of 31 December 2016 and 31 December 2015 the Issuer collected purchases of the above mentioned receivables for an amount equal to respectively €492 thousand and €743 thousand.

Non-healthcare segment

In addition to the healthcare segment where we already have a competitive advantage thanks to our level of specialization, we have increased the volumes of managed and purchased receivables in the other public administration segments as well. In particular, in 2016 we decreased the purchases of receivables due from the non-healthcare segments of the public administration by 12% compared to 2015. We consolidated and increased our penetration into the sector of receivables owed by the national healthcare system with an increase in receivables purchased equal to 14% in 2016 compared to 2015. As a result of such increase, the volumes of purchased receivables due from non-healthcare public administration segments decreased from 38% in 2015 to 32 % in 2016; while the volumes of purchased receivables due from the national healthcare services increased from 61% in 2015 to 66% in 2016.

Spain

In Spain, our activities are carried out by Farmafactoring España and mainly involve Non-Recourse Factoring and Credit Collection Management of receivables due to our clients from the Spanish healthcare system, whose ultimate debtors are the 17 autonomous regions of Spain (each a "***Comunidad***" and, jointly, the "***Comunidades***"), and the central and regional public administration, whose ultimate debtors are the Spanish state or the *Comunidad*, as applicable.

As of 31 December 2015 and 2016, Farmafactoring España carried out its business with, respectively 49 and 59 customers and with 171 and 146 Debtors.

The table below indicates the amount of our receivables, with a specific indication of the receivables purchased as part of our Non-Recourse Factoring activities in Spain, for the years ended 31 December 2016 and 2015, respectively, divided by Spanish Public Healthcare Debtors, Spanish Public Administration Debtors and Other Spanish Debtors.

	As of 31 December		**As of 31 December**	
	2016	**%**	**2015**	**%**
	(in € millions, except percentages)			
Receivables	**351**	**100%**	**467**	**100%**
Spanish Public Healthcare Debtors	263	74.9%	412	88.2%
Spanish Public Administration Debtors	88	25.1%	55	11.8%
Other Debtors	-	0%	-	0%
Only Non-Recourse Factoring Receivables	**346**	**100%**	**450**	**96.4%**
Spanish Public Healthcare Debtors	257	74.2%	395	84.6%
Spanish Public Administration Debtors	88	25.4%	55	11.8%
Other Debtors	-	0%	-	0%

The Spanish healthcare services and public administration, similarly to Italy, are characterized by lengthy payment times and administrative complexities. This allows us to replicate in Spain the Credit Collection Management and Non-Recourse Factoring activities that we perform in Italy through Farmafactoring España, which is strategically positioned as an intermediary between Spanish clients and debtors.

In Spain, we use a receivable payment process aimed at ensuring *conformidad* (compliance/validation of the invoice) of the invoice with debtors' accounts: with regards to smaller clients with a higher credit risk, we generally carry out our Non-Recourse Factoring activities only if there is *conformidad*, which confirms the existence of the receivable and eliminates the risk of its re-assignment. In addition, since the receivable verification process is simplified by the centralization of payments at *Comunidad* or central administration level, as the case may be, and the receivable certification process described above, in Spain we are able to perform the receivable verification activities on our own without the assistance of external agencies.

Credit Collection Management in Spain

The Spanish market has fewer administrative complexities compared to the Italian market, mainly due to the Spanish Government's adoption of a system involving the certification of receivables due from Spanish debtors. Therefore, there is a lower demand in Spain for our Credit Collection Management services.

The following table indicates our total volumes of receivables and the volumes of receivables managed as part of our Credit Collection Management activities, as well as our total collections and collections in the context

of our Credit Collection Management activities, recorded in Spain in the years ended 31 December 2016 and 2015, respectively.

	As of 31 December		As of 31 December	
	2016	**%**	**2015**	**%**
	(in € millions, except percentages)			
Total receivables	**351**	**100%**	**467**	**100.0%**
of which Credit Collection Management	*5.7*	*1.6%*	*17*	*3.6%*
Total collections	**408**	**100%**	**537**	**100.0%**
of which Credit Collection Management	*17*	*4.2%*	*20*	*3.7%*

Non-Recourse Factoring in Spain

We carry out our Non-Recourse Factoring activities in Spain through Farmafactoring España mainly for Suppliers, who are often already our clients in Italy.

The Maturity Commissions we receive from our clients are determined on the basis of (i) historical payment trends of Debtors owing the receivables, (ii) quality of the portfolio assigned by our clients, and (iii) actual and expected cost of funding needed in order to perform our activities. For the year ended 31 December 2016, Farmafactoring España recorded in its balance sheet €16 million in Maturity Commissions and late payment interest. Late payment interest and maturity commissions represent a significant income component for us.

In Spain, the late payment interest rate is regulated by Directive 2011/7/EU, implemented by Spanish Decree Law No. 4/2013 and is equal to 8% above the ECB's reference rate.

The amount of late payment interest accrued and legally due to us, but not already collected, in relation to purchased non-recourse receivables (in our late payment interest fund) in Spain was equal to €51 million and €37 million for the years ended 31 December 2016 and 2015, respectively. As of 31 December 2016, part of the late payment interest fund, equal to €17 million, was transferred to our income statement.

The following table indicates the amount of receivables acquired, collected, and acquired but not yet collected (outstanding receivables) as part of our Non-Recourse Factoring activities in Spain, for the years ended 31 December 2016 and 2015, respectively.

	As of 31 December 2016	**As of 31 December 2015**
	(in € millions)	
Non-Recourse Purchases	346	450
Non-Recourse Factoring Collections	391	517
Non-Recourse Factoring Outstanding receivables	139	183

Our market share has gradually increased, meaning that we have consolidated our market leadership among market players specialized in the sale of non-recourse receivables purchased in 2014 (*Source*: *elaborated on the basis of data of Asociación Española de Factoring* ("***AEF***") *and the publicly available financial statements of IOS Finance*). We can take advantage of the skills we have acquired in the Italian market and our broad client base that in many cases also operates in Spain, and we pursue in Spain a strategy which is aimed at replicating our Italian business model, by becoming a business partner in the management and purchase of receivables due to suppliers from the national healthcare service and the public administration.

Portugal

Since obtaining Bank of Italy's confirmation to have no objections in this respect on 23 April 2014, we have operated directly, on a cross-border basis under the freedom to provide services, as well as (since 1 December 2016) through services rendered by Farmafactoring España in respect to the commercial part, on the Portuguese market for the Non-Recourse Factoring of receivables due to clients from the Portuguese healthcare system and, more specifically, from public hospitals ("**SPA**") and public entities operating in the healthcare sector ("**EPE**"). These authorities are funded directly by the Portuguese central government.

Our Non-Recourse Factoring activities in Portugal are managed by one of our business units, whose tasks include the operational activity aimed at purchasing receivables, management and collection thereof (they mainly include sending payment reminders and taking legal action), whereas, in carrying out our activities, we rely on the commercial network of Farmafactoring España as a channel for direct business acquisitions and distribution of offered services.

As of 31 December 2015 we had 9 customers and 44 debtors in Portugal. As of 31 December 2016, we had 11 customers and 45 debtors. With regard to the seasonality of the business which has its maximum concentration of operation in the last quarter of the year, the comparison between customers number in 2016 and those in the foregoing years is not material.

The volumes of new receivables managed and receivables purchased on a non-recourse basis in Portugal totaled €51 million in the year ended 31 December 2016.

Similarly to Spain, in Portugal we use a receivable payment process that ensures the conformity of invoices with debtors' accounts, including systems for: (i) the assumption of debt by the relevant debtor at the time of allocation of the budget (*numero de cabimento*, in the presence of which it is assumed that purchases are legitimate as set forth in the budget), and (ii) the identification of all documents that, from a financial, legal and administrative point of view, conform to and are certified as debt owed by the relevant debtor (*numero de compromiso*). Pursuant to certain types of contracts, the "*numero de compromiso*" must appear on the order, in the absence of which there will be less certainty surrounding the receivable with an increased counterparty risk in respect of debtors.

In 2014, the annual expenditure of the Portuguese public healthcare sector amounted to approximately €10.4 billion, of which approximately €2.3 billion related to expenditure on goods and services (*Source*: *Instituto Nacional de statistica-Portugal*).

Portugal implemented Directive 2011/7/EU on combating late payment in commercial transactions through Decree Law 62/2013, which established that the new late payment interest rate (equal to 8% above the ECB's reference rate) would apply to the Portuguese healthcare service from 1 January 2016. Until 31 December 2015 the applicable late payment interest rate for the Portuguese healthcare service under Decree Law 32/2003 (implementing Directive 2000/35/EC) was equal to 7% above the ECB's reference rate.

Late payment interest constitutes a significant part of our income. In the year ended 31 December 2016, we recorded in our income statement €3.2 million in Maturity Commissions and late payment interest in Portugal.

The amount of late payment interest accrued and legally due to us, but not already collected, in relation to purchased non-recourse receivables (in our late payment interest fund) in Portugal was equal to €11 million and €8 million for the years ended 31 December 2016 and 2015, respectively. As of 31 December 2016, part of the late payment interest fund, equal to €1 million, was transferred to our income statement.

The following table indicates the amount of receivables acquired, collected, and acquired but not yet collected (outstanding receivables) as part of our Non-Recourse Factoring activities in Portugal, for the years ended 31 December 2016 and 2015, respectively.

	As of 31 December 2016	**As of 31 December 2015**
	(*in € millions*)	
Non-Recourse Purchases	51	55
Non-Recourse Factoring Collections	40	54
Non-Recourse Factoring Outstanding receivables	39	28

Although we only began operating in the Non-Recourse Factoring sector in April 2014, we have already acquired receivables amounting to over €55 million. During 2015 we grew by 87.4% and established our position as market leader, as we are the sole specialized market player (*Source*: *Factor Chain International*). As of 31 December 2016, our receivables amounted to approximately €51 million.

Poland

The Magellan Group operates primarily in three sectors: (i) financing of suppliers' operating capital, (ii) financing of current and future receivables, and (iii) financing of investments in the public and health sectors. In particular, Magellan is a leading operator in the market providing financial services to companies in the health sector, to the suppliers of the public administration in Poland and to local government entities (*Source*: *Management analysis of direct competitor public information*).

Magellan entered into a cooperation and management agreement with the closed-end fund Skarbiec-Zdrowia FIZ-AN, pursuant to which Magellan collects receivables acquired by the fund.

Magellan, in order to expand its activities into Western Europe, established at the end of 2014 a branch in Spain, Magellan S.A Corporativa, Sucursal en España. Through its Spanish branch, Magellan carried out non-recourse factoring of receivables due from the Spanish public administration and credit management. Furthermore, Magellan's Spanish branch granted financing for the purchase of medical equipment. The new Spanish business of Magellan will be carried out directly by Farmafactoring España and that, as of the date of this Prospectus, the outstanding credit portfolio has been transferred from Magellan Spanish branch to Farmafactoring España.

Following this agreement, we are completing the closure of the Spanish branch of Magellan so that the Spanish operations of the Group will be unified under Farmafactoring España.

The Magellan Group consists of the following companies (in addition to Magellan):

- MEDFinance S.A. ("**MEDFinance**"), a Polish joint-stock company wholly owned by Magellan. It provides public and private healthcare entities with the opportunity to acquire receivables in support of their investments and funding for the replacement and purchase of new medical equipment giving access to modern forms of financing by offering financial services for the supply of medical equipment, in particular by way of factoring, financial leasing and consumer credit;

- DEBT-RNT sp. z o.o., a Polish limited liability company wholly owned by Magellan operating in the field of debt restructuring;

- Magellan Česká republika s.r.o., a Czech limited liability company wholly owned by Magellan. It grants Czech healthcare entities and their suppliers access to financing, in particular by providing factoring services, including the factoring of receivables, and granting loans and guarantees;

- Magellan Central Europe s.r.o., a Slovakian limited liability company wholly owned by Magellan. It partners with Slovakian healthcare entities and their suppliers by providing financial services, including the factoring of receivables, and granting loans and guarantees. Magellan Central Europe s.r.o. has a branch in the Czech Republic with registered office in Brno and was incorporated in 2016; and

- Municypalny Fundusz Inwestycyjny Zamknięty, a closed-end fund of which Magellan owns 100% of the issued financial instruments.

In addition, the law firm Kancelaria Prawnicza Karnowski i Wspólnik spółka komandytowa located in Łódź (Poland), incorporated as a limited partnership, and Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspólnik spółka komandytowa spółka komandytowa located in Łódź (Poland), incorporated as a limited partnership, are affiliated entities of the Magellan Group.

The following table shows the main economic and financial indicators of the Magellan Group for the years ended 31 December 2016 and 2015 respectively.

	As of 31 December 2016	**As of 31 December 2015**
	(in € millions)	
Total assets	463	413
Equity	89	82
Revenues	37	39
Operating expenses	11	8
Operating income	8	12

	As of 31 December 2016	As of 31 December 2015
	(*in € millions*)	
Net results	7	10

Net result adjusted as of 31 December 2016 is equal to about €9.6 million taking into consideration one-off costs and expenses concerning the waiver on mBank Bond and the tender offer completed by the Issuer on the share capital of Magellan.

As of 31 December 2016, Poland represented the principal market for the business of the Magellan Group accounting for approximately 85% of the total purchased assets. The markets in which the Magellan Group operates, other than the Polish market, account approximately for the remaining 15% (Slovakia for 10%, Spain for 3% and Czech Republic for 2%).

The Magellan Group total assets amounted to PLN 2,041 million and PLN 1,760 million as of 31 December 2016 and 2015, respectively (approximately €463 million and €368 million, respectively), while equity was equal to PLN 391 million and PLN 350 million as of 31 December 2016 and 2015 (approximately corresponding to €88.7 million and €82.1 million), respectively.

The information related to fiscal year 2015 has been extracted from the consolidated financial statements of the Magellan Group for the year ended 31 December 2015.

The information related to fiscal year 2016 has been extracted from the 2016 Magellan's preliminary key financial data (the "**Magellan Preliminary Key Financial Data**") approved by the supervisory board of Magellan on 3 February 2017 and prepared only in connection with the Issuer's disclosure obligations in Italy to ensure equal treatment of investors.

The 2016 Magellan Preliminary Key Financial Data have not been audited or verified by any independent source for accuracy or completeness and may be a subject to further changes.

The 2016 Magellan Preliminary Key Financial Data included in this Prospectus may be subject to adjustments and amendments when Magellan will be publishing its audited 2016 financial statements. Any material adjustment and amendment will be published together with the publication of Magellan's 2016 financial statements.

The periodical report containing the audited consolidated and standalone 2016 financial statements of Magellan is expected to be published on March 2017.

Employees

The table below sets forth the number of employees of the Group at year end for the years ended 31 December 2016 and 2015.

	2016	2015
Senior Executives and Executives	23	12
Managers	100	55
Workers	286	121
Total	**409**	**188**

As of 31 December 2016, the Group had 409 employees of which 202 are employed by us and 23 by Farmafactoring España and 184 by the Magellan Group of which 170 in Poland, 11 in Slovakia, 3 in Czech Republic. The Magellan Group has no trade unions and has not entered into any collective labor (or similar) contracts with its employees.

Our full-time employees are normally employed under contracts of indefinite term.

Under Italian law, upon termination of an employment, employees are entitled to severance pay (*trattamento di fine rapporto*) based on their annual salary, the length of their employment and the rate of inflation. As of 31 December 2016: (i) the provision of the Issuer for employee severance indemnities totaled €800,877.67 (ii) the employee severance indemnities paid by the Issuer to the supplementary pension fund amounted to €2,509,470.81 and (iii) the employee severance indemnities paid by the Issuer to the Italian social security service ("**INPS**") amounted to €776,197.35.

Property, plant and equipment

Properties owned

As of 31 December 2016, we owned the following properties:

Owner	Location	Intended use
Banca Farmafactoring	Milan-Via Domenichino No. 5	Operational headquarters, registered office
Banca Farmafactoring	Rome-Via Bertoloni No. 1/E	Operational headquarters

In addition, we hold a surface right over three parking spaces in a multistory car park in Rome, Largo Pizzetti No. 5/6, exclusively related to our offices in Via Bertoloni No. 1/E.

As of 31 December 2016, our properties are free from any encumbrance that might have a negative impact on their use.

Owner	Location	Intended use
Magellan S.A.	Jacków, the municipality of Daszyna-Plot no. 18/1	Agriculture and pasture
Magellan S.A.	Walew, the municipality of Daszyna-Plot no. 112/2	Arable land and permanent pasture
Magellan S.A.	Koźliny, the municipality of Suchy Dąb-Plot no. 370 (22/100 part of the plot)	Agricultural land, permanent meadowlands, area of agricultural crops, complete prohibition of building with the exception of the construction of equipment and technical infrastructure
Magellan S.A.	Łapanów, the municipality of Łapanów-Plot no. 450/4, 445/5, 273/36	Sport services, tourist services, forests
Magellan S.A.	Brzezowa, the municipality of Łapanów-Plot no. 91/29, 91/36, 92/3, 93/2, 93/4, 94/10, 94/12, 95/4	Sport services, tourist services
Magellan S.A.	Brzezowa, the municipality of Łapanów-Plot no. 91/37	Sports services, arable land, wooded land, roads
Magellan S.A.	Brzezowa, the municipality of Łapanów-Plot no. 95/8, 95/9	Sport services, tourist services, shelterbelts areas, riversides areas, mid-fields areas, woodlands with special natural values
Magellan S.A.	Krośnice, the municipality of Krośnice-Plot no. 508/135	Roads, leisure facilities, urbanized underdevelopment areas, timberlands, other build-up areas, offices
Magellan S.A.	Duszniki Zdrój, the municipality of Duszniki-Zdrój-Plot no. 21/3	Arable land, pasture-class no. 6, leisure facilities, urbanized underdevelopment areas, roads, ditches
Magellan S.A.	Duszniki Zdrój, the municipality of Duszniki-Zdrój-Plot no. 71/2	Forests, pasture-class no. 5 and 6
Magellan S.A.	Duszniki Zdrój, the municipality of Duszniki-Zdrój-Plot no. 98/5	Permanent pasture, land
Magellan S.A.	Duszniki Zdrój, the municipality of Duszniki-Zdrój-Plot no. 98/6	Arable land, pasture-class no. 5 and no. 6, house constructions

Magellan S.A.	Poznachowice Górne, the municipality of Raciechowice-Plot no. 237/1	Other building area, orchard
Magellan S.A.	Poznachowice Górne, the municipality of Raciechowice-Plot no. 192/1	Other building area
Magellan S.A.	Poznachowice Górne, the municipality of Raciechowice-Plot no. 640/17, 640/20	Arable land

Magellan owns real property acquired under sale and lease back products offered to local government units. The table below sets forth the properties owned by Magellan:

Some of the real properties owned by Magellan are classified as agricultural land. Any possible future disposal of such agricultural properties by Magellan (or the Group in general) or shares in Magellan must be completed in accordance with the Polish Act on Shaping the Agricultural System (Journal of Laws 2012, item 803 as subsequently amended) pursuant to which any:

(i) disposal of agricultural real property (unless disposed in favor of a local government unit, State Treasury, Polish Agricultural Real Properties Agency or legal persons acting under the provisions on the relation of the State to the Roman Catholic Church in the Republic of Poland, on the relation of the State to other churches and religious associations, and on guarantees of freedom of faith and conscience); or

(ii) corporate restructuring of, or disposal of shares in the owner of any agricultural real property, excluding shares of listed companies.

requires notification to the Polish Agricultural Real Properties Agency. Any such transaction is subject to the preemptive rights of the Polish Agricultural Real Properties Agency, who upon exercise of their preemptive rights, can acquire such agricultural property or the shares, respectively.

Plant and Equipment

The plant and equipment we use in our business are limited to IT infrastructure, which is essential for the type of services we provide.

Leased properties

As of 31 December 2016, we leased the following properties from third parties:

Tenant	Location	Intended use	Lease maturity date	Annual rent
Banca Farmafactoring .	Milan-Via Meravigli No. 16	*Pro-tempore* apartment for employees or directors	14 May 2018(1)	€20,580.00
Banca Farmafactoring .	Milan-Via Mosè Bianchi No. 6	Office(2)	30 September 2020(3)	€443,485.73(4)
Farmafactoring España	Madrid-Calle Luchana No. 23	Registered office, office	14 April 2017	€50,880.00
Farmafactoring España	Barcelona-Calle Mestre Nicolau No. 19	Farmafactoring España -Operational headquarter. Spanish branch - Registered office	25 July 2021	€39,600.00
Farmafactoring Sucursal España.......	Madrid-Calle Luchana No. 23	Registered office, office	15 April 2018	€26,862.50
Magellan S.A..............	Łódź-Aleja Piłsudskiego 76	Registered office, office	19 July 2021	€197,000.00 (5)
Magellan Czech Republic..................	Roztylská 1860, Prague 4 - Chodov	Business	Not defined	€3,736.80 (6)
Magellan Czech Republic..................	Nádražní 29/21, Prague 5 - Smíchov	Residential	30 June 2018	€11,100.00
Magellan Central Europe	Savoy Courtyard Building, Mostová 2, 811 01 Bratislava	Offices	Not defined	€37,012.32 + €14,138.52 as expenses (7)

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(1) The lease agreement expressly provides for its automatic renewal, in favor of the Issuer, for an additional 4-year period.
(2) With respect to this property, we entered into (i) a service agreement regarding the facility management and (ii) separate lease agreements for two areas located at the third, fourth and fifth floors.
(3) Pursuant to article 28 of law No. 392/1978, the lease agreement is automatically renewed for an additional 6-year period, unless the landlord refuses to renew the agreement, *provided that* the limits indicated in article 29 of law No. 392/1978 are respected.
(4) The annual rent includes the costs for facility management services and utilities.
(5) The annual rent will increase to €214,000.00 starting in 28 January 2017.
(6) The annual rent will increase to €6,585.60 starting in 2017.
(7) The amounts are not comprehensive of VAT.

Magellan's main office in Łódź is held under a lease agreement. Magellan subleases this office to MEDFinance and Magellan Group's law offices (Kancelaria Prawnicza Karnowski i Wspólnik Spółka Komandytowa).

In addition, in 2015 we paid rent of €9,398.44 and €2,295.87, respectively, on two parking spaces at our offices in Madrid (Calle Luchana no. 23) and Barcelona under two tacitly renewable lease agreements.

Following the lease agreement executed on 25 July 2016, Farmafactoring España paid an annual rent of €3,600.00 on another parking space at the Barcelona office (Calle Mestre Nicolau No. 19).

Magellan Central Europe holds two parking lots (with the option to lease further three lots) at the Bratislava office under the relevant lease agreement, the duration of which is connected to the lease agreement concerning the Bratislava offices for an annual fee equal to €18,720.00 plus VAT for each of the parking lots.

We have also entered into a service agreement regarding the implementation of our disaster recovery plan, which sets out the procedures that would be necessary in order to restore an adequate number of workstations in the event that our Milan headquarters become unavailable. At the business recovery site in Brunello (Varese), Via Pret No. 1, 21020 we have: (i) 80 workstations for the first 24 hours and an additional 80 workstations for the following 24 hours, (ii) an IP-specific network, (iii) standard office equipment (telephones, 16 incoming and outgoing urban lines, laser and inkjet printers, a large printer, fax machines, photocopiers, 4Mbits internet access. We are able to access through our terminal server technology the

applications and corporate data managed at the disaster recovery data center in Via Darwin No. 85 in Settimo Milanese (Milan) at the BT Italia server farm. In particular, our sites and technological infrastructure include:

(a) Data Center 1 “primary” at our Milan offices in Via Domenichino No. 5;

(b) Data Center 2 “primary” at Via Darwin No. 85 in Settimo Milanese (Milan), at the BT Italia server farm;

(c) recovery logistical site for our operational workstations at Via Pret 1 in Brunello (Varese) at the Business Recovery Center (BRC) of Elmec Informatica, used as a back-up should the Milan headquarters in Via Domenichino 5 and/or Via Moose Bianchi 6 become unavailable;

(d) our MPLS network that connects our offices with our Data Center.

In addition, pursuant to the CSE Outsourcing Contract, we are entitled to use the following vacant sites and technological infrastructure made available by CSE, if necessary, in order to guarantee operational continuity and prevent potential emergency situations:

(a) Data Center 1 “primary” in San Lazzaro di Savena, Via Emilia No. 272;

(b) Data Center 2 “primary” in San Lazzaro di Savena, Via Emilia No. 272;

(c) Data Center 3 “secondary” in Modena, Via Aristotele No. 195 at BPER’s headquarters.

(d) CSE’s MPLS network that connects our offices and Data Center with CSE’s Data Center.

In addition, pursuant to the RSI Outsourcing Contract, we are entitled to use the following vacant sites and technological infrastructure made available by RSI, if necessary, in order to guarantee operational continuity and prevent potential emergency situations:

(a) Data Center 1 “primary” in RSI Sociedad Civil a Tres Cantos, Avenida de la Industra No. 23;

(b) Data Center “secondary” in Docalia Sociedad Limitada ad Alcobendas, Avenida Penalara No. 35.

Furthermore, Magellan uses a data center located in Lodz, Aleja Piłsudskiego 76. A project for the migration of the systems in Magellan’s data center with our data centers located in Milan and Settimo Milanese is currently underway.

Environmental issues

As of the date of this Prospectus, we are not aware of any environmental issues arising from the use of our tangible assets.

Legal Proceedings

We are involved in a number of legal proceedings arising in the ordinary course of our business. We assess the potential losses that we could incur in connection with pending legal proceedings and make provisions in application of prudential criteria. In the year ended 31 December 2016, we made provisions of an aggregate amount of €2,010 thousand to cover risks and charges. Although we believe that such amount is adequate, in the event that any losses resulting from legal proceedings exceed such amount, this could have a material adverse effect on our business, financial condition and results of operations.

Below is a brief description of the most material legal proceedings to which we are a party.

Litigation with Eurospital S.p.A.

On 14 January 2009 Eurospital S.p.A. (“**Eurospital**”), a former shareholder of Confarma, brought a claim against us and the then chairman of the board of directors of Confarma before the Court of Milan, requesting compensation for damages in connection with the divestment of its shareholding in Confarma. Eurospital argued that at the time it determined the price of and sold its shareholding in Confarma to DB Zwirn & CO., it was unaware of the ongoing tender offer process relating to the majority shares in Confarma, as the defendants unlawfully withheld such information from them. Eurospital therefore claimed compensation for

damages amounting to €1.9 million, equal to the difference between the price received for its shareholding in Confarma and the price paid by Apax Partners to the remaining shareholders of Confarma for the majority shares in Confarma.

On 5 October 2011, the Court of Milan ruled that we and the then chairman of Confarma were liable to pay compensation for damages of €2 million, plus: (i) an adjustment for the currency revaluation since December 2006, (ii) interest on €2,080,000 accruing from December 2006 to the date of payment, and (iii) litigation expenses equal to €45,131.87. However, on 27 May 2014, the Court of Appeal of Milan ruled in our favor and therefore dismissed Eurospital's claim and ordered Eurospital to reimburse us for litigation expenses incurred by us in both proceedings.

In July 2014, Eurospital appealed to the Italian Supreme Court against the decision of the Court of Appeal of Milan and in October 2014, we filed a counterclaim. The proceedings before the Italian Supreme Court are currently pending.

We believe that the ruling of the Court of Appeal of Milan is accurate and that, while there is a risk of losing the case, it currently does not seem probable that the Italian Supreme Court will overturn the Appeals Court decision. Accordingly, we have not made any provisions in our financial statements to cover potential losses related to this dispute.

Litigation with A.O. Cannizzaro of Catania

A.O. Cannizzaro of Catania ("**A.O. Cannizzaro**") summoned the Issuer to appear before the Court of Catania at the hearing set on 10 November 2016. The hearing, originally set on 14 February 2017, was postponed to 3 July 2017.

The reasons for initiating this lawsuit consist in the contested existence of the receivables (equal to €10 million, €5.7 million of which have already been paid during the course of the proceedings) in relation to which a payment reminder was sent on 27 March 2016 with which we asked for the payment of both the receivables purchased on a non-recourse basis and the receivables managed on behalf of our clients. More specifically, the claimant has asserted that: (i) the receivables have already been paid; (ii) the relative assignment to us of the receivables was not accepted; (iii) the receivable is time-barred; (iv) the competent Court is not the Court of Milan but the Court of Catania.

We are involved in such proceeding both as purchaser of receivables on a non-recourse basis and as manager of the receivables of our clients on behalf of them. The negative assessment action brought by A.O. Cannizzaro is a unique case in the history of our factoring business and we believe that the risk of losing the case is not probable, even if remotely possible (also considering that we are currently trying to negotiate a settlement).

Tax proceedings

Tax assessment relating to capital expenditure

In 2009, the Italian tax authorities launched a tax investigation on us in respect of the fiscal year ended 31 December 2006. The Italian tax authorities subsequently extended their assessment to further years, in relation to the capital expenditure aimed at increasing the value of properties owned by us and related depreciation. During the tax investigation, the Italian tax authorities concluded that we were liable to pay higher taxes for several of the years in question. In 2013, we paid the tax authorities €343,579 in respect of the fiscal year ended 31 December 2004. In 2014, we reached a settlement with the Italian tax authorities in respect of the amounts owed for the other years in question and we paid €603,341 in total.

Tax assessment relating to IRES and IRAP

In 2014, the Italian tax authorities launched a tax investigation with respect to the fiscal years ended 31 December 2010 and 2011, at the end of which they issued an assessment report in which they imposed: (i) a higher taxable base for corporate income tax ("**IRES**") purposes equal to €1,110,014 and (ii) a higher taxable base for additional local tax ("**IRAP**") purposes equal to €196,679 for the fiscal year ended 31 December 2010.

In 2015, we received tax assessments indicating potential additional amounts in combined IRES and IRAP in respect of the fiscal year ended 31 December 2010. On 14 January 2016 we submitted a tax settlement proposal to the Italian tax authorities, which as of the date of this Prospectus is still ongoing.

In 2015, we paid: (i) an amount of IRES equal to €356,067 for the fiscal year ended 31 December 2010 and €38,872 for the fiscal year ended 31 December 2011 and (ii) an amount of IRAP and interest equal to €10,731 for the fiscal year ended 31 December 2010.

In 2016, we paid: (i) an amount of IRES equal to €26,606.18 for the fiscal year ended 31 December 2010 and (ii) an amount of IRAP and interest equal to €4,667.55 for the fiscal year ended 31 December 2010.

Bank of Italy Inspections

In 2015, we were subject to (i) an inspection by the Bank of Italy pursuant to Articles 54 and 68 of the Consolidated Banking Law, and (ii) the annual SREP conducted by the Bank of Italy.

The Bank of Italy inspection was carried out between 5 February and 22 April 2015 and the relative report (the "**Report**") was delivered to us on 15 July 2015. No sanctions were applied as a result of this inspection, nor were any questions raised concerning compliance irregularities. In particular, the inspection ended with relatively favourable opinion, to be inserted (as indicated in the Report) in the wider context of the periodical prudential review process. After acknowledging our contained level of credit risk, solid capital base and high profitability, the Report indicates certain spaces for improvement concerning management, with particular regard to strategies and governance and control systems, to the credit process, as well as to operational and reputational risks. On 10 September 2015, we sent to the Bank of Italy a follow-up report in which we set out all our implemented and planned activities.

The annual SREP was conducted in October 2015 to assess the appropriateness of our capital liquidity, organizational and management safeguards with respect to the risks we undertake as part of our banking activities. In January 2016, the Bank of Italy determined the minimum capital requirements with which we are required to comply. Our current and target capital levels are, in any event, higher than those required by the Bank of Italy. As of the date of this Prospectus, we are awaiting the new SREP for the year 2017.

In addition, between August and December 2016, we were subject to an inspection carried out by the Bank of Italy in relation to loans granted by the Issuer to the Bank of Italy through the ABACO platform to secure financing transactions of the Eurosystem. The Bank of Italy confirmed the positive outcome of the inspection by notice received on 22 December 2016. The inspection brought to light certain discrepancies between the dates on which the loan agreements were signed and the dates on which the loans were issued, which however did not affect the Bank of Italy's assessment of eligibility of the loans. On 12 January 2017, we informed the Bank of Italy that we had corrected such discrepancies.

Proceedings and claims by debtors

22 debtors belonging to the public administration have filed complaints with the Bank of Italy due to the reporting we submitted to the Bank of Italy reporting system (*centrale rischi*). As of 31 December 2016, the outstanding balance with those debtors is lower than 1% of our total exposure toward the public administration and therefore, even if all such complaints were resolved against us, this would not have a material impact on our purchase and collection of receivables.

In the ordinary course of business, certain of our debtors refuse to acknowledge the assignment of their receivables.

As of the date of this Prospectus, 437 final debtors refused to accept us as the assignee of receivables and none of the abovementioned debtors have been transferred to the Farmafactoring SPV.

Other claims

As of 31 December 2016, in relation to the purchases of receivables carried out in the period 2014-2016, we had ordinary course outstanding receivables claims from debtors of approximately €77 million representing the 4% of the non-recourse capital exposure of the Issuer. The following table shows the outstanding receivables claims from debtors.

As of 31 December 2016

(*in € millions*)	**Outstanding (management-accounts) receivables claims**
National Healthcare Service	40.2
Of which SPV I S.r.l.	10.8
Public Administration	36.7
Of which SPV I S.r.l.	-
Others	0.01
Of which SPV I S.r.l.	-

As of 31 December 2016, Magellan's balance of receivables subject to court proceedings amounted to PLN 160,236 thousand, equivalent to 8% of their financial assets portfolio, compared to PLN 119,319 thousand as of 31 December 2015, equivalent to 7% of the portfolio of financial assets.

These litigations are primarily procedural matters where the hospitals or other debtors have made claims regarding the dates of invoices or other technical points, but pursuant to which they do not contest the amounts due for the receivables in question, but rather contest manner and timing. With respect to two litigations, however, with Warszawa Banacha and Warszawa Dzieciątka Jezus (representing approximately PLN 11.1 million and PLN 19.1 million, respectively), the hospitals claim that as a result of the financing received by the creditor from Magellan pursuant to Magellan's products, such financing effectively cancelled the debt owed to the creditor. The Polish Court of Appeal confirmed the earlier ruling of the first instance court, declaring that the hospitals' allegations on the fulfilment of benefits were unfounded. The case is still pending before the Polish Supreme Court.

Corporate Governance

The organisational documents of the Issuer conform to the provisions contained in the Italian Civil Code and other special regulations regarding banks. The Issuer is structured according to the traditional Italian business corporate governance model with (i) a board of directors (the "**Board of Directors**") responsible for overseeing business management, and (ii) a board of statutory auditors (the "**Board of Statutory Auditors**") responsible for supervising compliance with laws and statutes, and monitoring the adequacy and the proper functioning of the organisational structure, the Issuer's internal controls and the Issuer's accounting and administrative system.

Pursuant to Legislative Decree No. 231 of 8 June 2001, as amended ("**Decree 231**", which provides for the direct liability of legal entities, companies and associations for certain crimes committed by their representatives and encourages companies to adopt corporate governance structures and risk prevention systems to stop managers, executives, employees and external collaborators from committing crimes), the Board of Directors appoints an independent supervisory board ("***Organismo di Vigilanza***"), composed by three members (one of which independent from the company), which is charged with the task of (i) monitoring compliance with Decree 231 and (ii) proposing necessary updates to the organisational model of the Issuer. In order to supervise the actions of top management adequately, the *Organismo di Vigilanza* must remain fully autonomous. As of the date of this Prospectus the members of the *Organismo di Vigilanza* are Giovanni Maria Garegnani, Marina Corsi e Francesco Tabone.

In addition, pursuant to article 31-bis of the Spanish Criminal Code, as amended by the Organic Law No. 1 of 30 March 2015 ("**Ley Orgánica**") which regulates the administrative liability of legal entities, including companies, the Board of Directors of Farmafactoring España approved the "Farmafactoring España S.A. Organizational, Management and Control Model pursuant to art 31-bis of the Criminal Code" (the "**Model**").

The Model provides for the appointment by the Board of Directors of Farmafactoring España of a supervisory board in charge of the supervision of the activities of the company and of ensuring compliance with the

Model, as well as of taking care of the update of the Model. The supervisory board of Farmafactoring España consists of solely the secretary of the Board of Directors of Farmafactoring España.

Board of Directors

The members of the Board of Directors are elected for three-year terms (unless elected upon the resignation or removal of another member) by majority vote of the shareholders at annual general shareholders' meetings, and may be re-elected. Pursuant to the Consolidated Banking Law, the members of the Board of Directors are required to abide by specific professional, ethical and independency requirements.

The following table sets forth the names, positions and principal activities of the current members of the Board of Directors. Each member's term will expire at the annual shareholders' meeting called for the approval of the Issuer's annual financial statements as at and for the year ending 31 December 2017.

Name	Position	Principal Activities Outside the Issuer
Salvatore Messina	Chairman	Chairman of Diners Club Italia S.p.A. Director of Fondazione Farmafactoring
Luigi Sbrozzi	Vice Chairman	Director of BFF Luxembourg S.à r.l..
Massimiliano Belingheri	Chief Executive Officer	Chairman and CEO of Farmafactoring España Chairman of the Supervisory Board of Magellan SA
Marco Rabuffi	Director	Chairman of Fondazione Farmafactoring Chairman of Tirolea S.r.l.
Gabriele Michaela Aumann Schindler	Director	N/A
Federico Fornari Luswergh	Director	Director of Merck Serono S.p.A. Director of Istituto di Ricerche Biomediche Antoine Marxer "RBM S.p.A." CEO of Merck S.p.A. Director of Allergopharma S.p.A. Director of Fonchim Director of Sigma Aldrich Italia S.r.l. Director of Sigma Aldrich S.r.l.
Mark John Arnold	Director	N/A
Giampaolo Zambelletti Rossi	Director	Chairman of RCS Investimenti S.p.A. Vice Chairman and Director of Unidad Editorial S.A. Madrid Director of Cellnex S.A. Barcelona
Ben Carlton Langworthy	Director	Director of FB Lux Holdings GB Director of FB Lux Holdings S.C.A. Director of FB Lux Holdings MIP S.C.A. Director of Bonhom S.a.S. Director of Resort Finance America LLC Director of LV Tower Holdings, LLC Director of LV Tower 52 Laonco, LLC Director of GTH LLC Director of Reachford Limited Director of Crestside Project Management Limited Director of Gembira Limited Director of Broadcrest Limited Director of Circleside Limited
Elisabetta Oliveri	Director	Director of Sagat S.p.A. CEO of Fabbri Vignola S.p.A. CEO of Gruppo Fabbri Vignola S.p.A. Sole Director of Gruppo Fabbri (Switzerland) S.A. Sole Director of Ser Man S.r.l.

Name	Position	Principal Activities Outside the Issuer
		Director of Gruppo Editoriale l'Espresso S.p.A. Director of Snam S.p.A. Director of Automac UK

The business address of the members of the Board of Directors is, for each director, Via Domenichino, 5, Milan, Italy.

Board Committees

As of the date of this Prospectus the Issuer has established committees for (i) the determination of officers' remuneration (the "**Remuneration Committee**"), (ii) the proposal of the size and composition of our Board ("**Nominating Committee**"), (iii) the oversight of internal control and corporate risks (the "**Control and Risk Committee**"), and (iv) for the evaluation of transactions with related parties and connected parties (the "**RPT Committee**").

Remuneration Committee

As of the date of this Prospectus the Remuneration Committee is composed by Elisabetta Oliveri (as chairman), Salvatore Messina and Luigi Sbrozzi.

The Remuneration Committee has advisory functions and is required to make proposals to the Board of Directors regarding the remuneration of the directors, officers and senior management of the Group.

Nominating Committee

As of the date of this Prospectus the Nominating Committee is composed by Federico Fornari Luswergh (as chairman), Gabriele Michaela Aumann and Ben Carlton Langworthy.

The Nominating Committee has advisory functions and is responsible for supporting and making proposals to the Board of Directors in relation to, inter alia: (i) the appointment and cooptation of directors; (ii) the self-assessment of the Board of Directors; (iii) the verification of the requirements of professionalism, integrity and independence of the directors; and (iv) the determination of succession plan for the CEO and other executive directors positions.

Control and Risk Committee

As of the date of this Prospectus the Control and Risk Committee is composed by Gabriele Michaela Aumann (as chairman), Salvatore Messina and Luigi Sbrozzi.

The Control and Risk Committee is an advisory body that supports and investigates the assessments and decisions of the Board of Directors relating to the internal audit and risk management systems and those relating to the approval of periodic financial reports.

RPT Committee

As of the date of this Prospectus the RPT Committee is composed by Salvatore Messina (as Chairman), Elisabetta Oliveri and Giampaolo Zambelletti Rossi.

The RPT Committee, among its ordinary functions, inter alia, (i) provides opinions and advices in relation to the "Regulation of the Banca Farmafactoring banking group for the management of transactions with parties with conflicts of interest" ("**RPT Regulation**"); (ii) provides, at the request of the CEO, an opinion to qualify the transaction, as the case may be, as a significant transaction, a less significant transaction or falling within an exemption pursuant to the RPT Regulation; (iii) is involved in the negotiation and preliminary investigation stages in respect of significant transactions and transactions for which the shareholders' meeting is responsible; (iv) in the case of less significant transactions, provides prior to the decision making stages non-binding majority advices on our interest in carrying out these transactions, as well as on the substantial expediency and correctness of related conditions; (v) in the case of significant transactions, has full access to information during the preliminary investigation and negotiation stages and expresses a unanimous opinion in such respect; (vi) verifies the framework resolutions prepared for and monitors standard transactions; and (vii)

provides the CEO and/or the party granted with authority to carry out specific transactions with a prior opinion on any proposal to be submitted to the Board of Directors.

Board of Statutory Auditors

Each member of the Board of Statutory Auditors is appointed by the shareholders and the board is composed of three regular auditors, one of whom is appointed as chairman, and two alternate auditors. Members of the Board of Statutory Auditors are elected by the shareholders for a term of three years until the date of the shareholders' meeting called for the approval of the financial statements relating to the third year of such appointment.

The Board of Statutory Auditors is part of the internal control system and its activities are carried out in compliance with the relevant regulatory requirements, including those set out by the Bank of Italy.

The following table sets forth the names and positions of the current members of the Board of Statutory Auditors, all of whose appointments expire at the annual shareholders' meeting which is called for the approval of the Issuer's annual financial statements as at and for the year ending 31 December 2017:

Name	Position
Francesco Tabone	Chairman and Statutory Auditor
Marco Lori	Statutory Auditor
Patrizia Paleologo Oriundi	Statutory Auditor
Giancarlo de Marchi	Alternate Auditor
Alessandro Cavallaro	Alternate Auditor

In accordance with Italian law, members of the Board of Statutory Auditors are registered members of the registry of certified public accountants (*Revisori Contabili*) held by the Italian Ministry of Justice.

The business address of the members of the Board of Statutory Auditors is Via Domenichino, 5, Milan, Italy.

Conflicts of Interest

As of the date of this Prospectus, there is no actual or potential conflict of interest between the duties of any of the members of the Board of Directors or Board of Statutory Auditors of the Issuer and their respective private interests or other duties.

At a Group level, however, our Chief Executive Officer, Mr. Massimiliano Belingheri, holds ordinary and preferred shares in BFF Luxembourg representing a shareholding of 2.28% in the share capital of the same company.

Furthermore, Mr. Luigi Sbrozzi is also a director of BFF Luxembourg. Mr. Carlton Langworthy is also a director of BFF Lux Holdings, which is our indirect shareholder. Mr. Marco Rabuffi holds through Unione Fiduciaria S.p.A. a shareholding equal to 0.45% of our share capital.

Our Chief Executive Officer and each of our principal executives have entered into non-compete agreements with us for a period varying from 2 (two) to 3 (three) years from the termination of their office or employment in respect of Italy and to the other countries in which we operate. Our Chief Executive Officer is also a party to the CEO Agreement. See "*Risk Factors—We may not be able to attract and retain key personnel*".

In addition, two of our Statutory Auditors, Marco Lori and Francesco Tabone, are currently subject to disciplinary proceedings started by CONSOB. See "*Risk Factors—We are involved in disputes, investigations and legal proceedings which could have a material adverse effect on us or on our recovery capability*".

Dividends and Dividend Policy

In accordance with Italian law, we may proceed with the payment of annual dividends out of our distributable profits and reserves on an unconsolidated basis for each relevant year pursuant to a resolution of the Board. Any such resolution is subject to approval by the shareholders' meeting, which must be convened for the approval of our annual financial statements within 120 or 180 days after the end of the relative financial year.

In accordance with Article 22 of our by-laws, before dividends can be distributed, an amount equal to 5% of the net profits shall be allocated to a statutory reserve fund (*riserva legale*) until such reserve is equal to, at least, one-fifth of our issued share capital. The reserve fund (*riserva legale*) has already reached one-fifth of our issued share capital. The remaining amount of net income is allocated to extraordinary reserves (or to other corporate purpose) or carried over to the following financial years, unless it is distributed to the shareholders upon a shareholders' resolution.

The Board of Directors of the Issuer has adopted a dividend policy, approved by the Board of Directors on 22 January 2016, which enables the proposal of a distribution of dividends up to 100% of the Group's consolidated net profits for the amount exceeding the 15% Total Capital Ratio. In addition, BFF Luxembourg has undertaken to maintain a dividend policy to its shareholders capable of keeping a Total Capital Ratio not lower than 15%, at both the levels of the Banking Group and the consolidation perimeter for the purposes of the CRR.

On 13 February 2017, the Board of Directors, on the basis of the dividend policy, has approved the proposal to distribute €72.1 million of dividends, equal to a 100% payout of the consolidated profits of the Group.

Recent Developments

Expansion of our business in Greece

In February 2017, we filed a notification with the Bank of Italy to offer factoring services in Greece under the freedom to provide services. In line with our organic group strategy, we are considering offering a factoring services increase in relation to receivables towards Greek public healthcare entities. The beginning of operations is expected to occur not earlier than the second quarter of 2017.

Magellan tax asset

The Magellan Management Board acknowledged that the merger of Mediona with Magellan would have generated a tax asset. However, on 20 February 2017, the Polish tax authority rejected our request to register the merger as a tax asset, but Magellan is taking into consideration the possibility of filing an appeal against such decision.

Strategy of the Issuer

As at the date of this Prospectus the Issuer is considering a possible initial public offering on the Italian market. In this context, the Issuer has filed a registration document with CONSOB which was approved on 23 December 2016. A draft of the Securities Note ("*Nota Informativa*") was filed with CONSOB on 24 February 2017 and, as of the date of this Prospectus, is under review by CONSOB.

In case of initial public offering, the Issuer would become subject to specific requirements with respect, *inter alia*, to applicable corporate governance rules. In particular, the Issuer would qualify as a large bank in terms of size or operational complexity for the purposes of the corporate governance provisions set forth in the Bank of Italy Circular No. 285/2013 (while it now qualifies as intermediate bank). For more information on the regime that would apply in case of initial public offering, see "*Supervision and Regulation—Italy—Corporate governance, administrative and accounting organization and internal control*").

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Relations with related parties

The following tables provide our transactions with related parties for the years ended 31 December 2016 and 2015. Since the dates set forth below through the date of this Prospectus, we have not entered into any related party transaction which might have a material impact on the amounts above.

Statement of financial position

Related parties	As of 31 December 2016			
	Loans and receivables to customers	Due to customers	Other assets	Other liabilities
		(*in € thousands*)		
Parent Company	-	-	11	-
Managers with strategic responsibilities	-	(201)	-	(488)
Total	-	(201)	11	(488)

Related parties	As of 31 December 2015			
	Loans and receivables to customers	Due to customers	Other assets	Other liabilities
		(*in € thousands*)		
Parent Company	-	-	-	-
Managers with strategic responsibilities	-	(401)	-	(398)
Total	-	**(401)**	-	**(398)**

Income statement

The tables below set forth the amounts of related party transactions reflected on our income statement for the indicated periods. "Interest income and similar revenues" refers to the interest paid by the Subsidiary under the loan agreements as described above and the "Interest expenses and similar expenses" consists mainly of charges paid by the Issuer to special purpose vehicles in connection with the securitization transactions carried out by the Group. For the years ended 31 December 2016 and 2015, this item also refers to the interest paid on "*Conto Facto*" term deposit accounts established by the Group's Directors on the same terms as those offered to the general public.

Related parties	As of 31 December 2016		
	Interest income and similar revenues	Interest expense and similar expenses	Other net operating income
		(*in € thousands*)	
Parent Company	-	-	11
Managers with strategic responsibilities	-	(6)	-
Total	-	(6)	11

Related parties	As of 31 December 2015		
	Interest income and similar revenues	Interest expense and similar expenses	Other net operating income
		(*in € thousands*)	
Parent Company	-	-	-
Managers with strategic responsibilities	-	(8)	-
Total	-	**(8)**	-

Key arrangements with related parties

We do not believe that any of our current related party transactions reported in our financial statements are material to our business.

However, in 2015, our principal executives entered into a series of transactions with BFF Luxembourg and Centerbridge Partners regarding the indirect investment in our shares. See "*Description of the Issuer—Conflicts of interest*".

Also, for the year ended 31 December 2016, we have a significant outstanding securitization with the Deutsche Bank Group for a total amount of €85 million. See also "*Risk Factors—Risks Related to Our Business—We may face ongoing liability under our securitization arrangement*" and "*Risk Management—Securitization transactions*" for a more detailed description of such securitization.

We entered into certain service agreements with Farmafactoring España in 2011 and 2015 and with Magellan in 2016 but we do not believe that either of these agreements are material to our business.

DESCRIPTION OF INTERNAL CONTROL PROCEDURES AND RISK MANAGEMENT

We are subject to risks that are an inherent part of our business activity. These risks include credit risk, market risk, liquidity risk, and operational risk, as well as business risk. Our profitability depends on our ability to identify, measure and continuously monitor these risks.

In order to achieve this, our Group's internal control system has been built around a set of rules, practices, procedures and organizational structures designed to ensure: (i) the governance of the risks and the responsibilities of the organizational units involved in the management process; (ii) the identification of risks to which we are exposed, (iii) the measuring and stress testing methods and the information flows that comprise the monitoring activities; (iv) the annual assessment of the adequacy of internal capital; and (v) the assessment of prospective future capital required for strategic planning and business expansion.

General overview

The Issuer's corporate bodies define the governance and risk management model for the entire Group, taking into account the specific types of business and their related risk profiles throughout the Group, in order to create an integrated and consistent risk management process.

Second-level controls aimed at managing risk are implemented by the Risk Management function and the Compliance and AML Functions, which are organized as follow:

- As set out below in more detail, the Risk Management Function ("**Risk Management**"): (i) monitors the controls over the management of risks in order to define the methodologies used to measure risk, (ii) verifies that the limits assigned to the various operating departments are being met and (iii) checks that the operations of the individual product areas are consistent with the assigned risk and return objectives.
- The Compliance Function ("**Compliance**") is responsible for controls over risks of non-compliance, aimed at verifying whether the bank's activities and operating processes are suitable for preventing the violation of laws.
- The Anti-Money Laundering Function ("**AML**") oversees compliance in matters of anti-money laundering and anti-terrorism, and is responsible for the controls required by anti-money laundering laws that prevent financial systems from being used for money laundering and financing terrorism.

The organizational positioning of the Risk Management Function of BFF and of the equivalent structures of the Subsidiaries conforms to the principle of separation between Internal Control Functions and Corporate Structures, as prescribed by the Supervisory Rules in force.

In accordance with said provisions, the Risk Management Function and the homologous functions of the Subsidiaries are placed among the second level Internal Control Functions together with the Compliance and AML Function and the homologous functions of the Subsidiaries. As mentioned above, the Risk Management Function is in charge of the "second level controls"; said controls are subsequent and separate from the verifications concerning the correct running of company's operations, directly assigned to the Corporate Structures (credit, finance, etc.) which, based on the activities carried out thereby, have an impact on the Bank's risk taking and oversees the relevant profile thereof (so called line or first level controls). Therefore, the Risk Management Function and the equivalent functions of the Subsidiaries are kept separate and independent from the Corporate Structures involved in the realization of the processes subject to their control.

To safeguard its independence, the Risk Management Function is functionally placed in staff to the Chief Executive Officer and hierarchically reports to him, and is separate from the Internal Audit Function, the Compliance and AML Function. The Risk Management Function is not involved in any risk taking processes.

Considering the organisational structure of our Group, the head of the Risk Management Function of each subsidiary is, on one hand, positioned under the management body of the relevant company from a hierarchical standpoint and, on the other, reports directly to the head of the Risk Management Function of BFF.

In particular the Risk Management department is, *inter alia*, responsible for:

- cooperating with the corporate governance bodies in defining the overall risk management system and the entire reference framework relating to the assumption and control of the risks of the Group (Risk Appetite Framework);
- establishing adequate risk management processes through the adoption and maintenance of suitable risk management systems, in order to map, measure, control or mitigate all relevant risks;
- providing an assessment of the capital absorbed, also under stress conditions, and the relative adequacy, by defining processes and procedures to meet every type of present and future risk, which take into account strategies and context changes;
- overseeing the implementation of the risk management process and ascertaining that it is being complied with;
- monitoring the adequacy and effectiveness of the actions taken to resolve any weaknesses found in the risk management system;
- submitting periodical reports to the corporate governance bodies on the activities carried out and providing them with consulting support on risk management issues.

Basel III rules and capital adequacy

Basel III

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 17 December 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 26 June 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 31 December 2016 is based on three pillars.

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

From the standpoint of operations, the absorption of risks is calculated using various methods:

- credit risk → standardized approach
- counterparty risk → standardized approach
- market risk → standardized approach
- operational risk → basic approach

The group publishes Pillar 3 disclosure and subsequent updates on our website www.bancafarmafactoring.it at least once a year, within 30 days of the approval of the financial statements by the shareholders’ meeting.

Capital adequacy

The regulatory framework requires that Own Funds (or regulatory capital) are made up of the following tiers of capital:

- Tier 1 capital, which is composed of:
  - ✓ Common Equity Tier 1 Capital (CET1);
  - ✓ Additional Tier 1 Capital (AT1);
  - ✓ Tier 2 capital (T2)

Tier 1's largest element is Common Equity, mainly composed of equity instruments (e.g. ordinary shares net of treasury shares), share premium reserves, profit reserves, valuation reserves, eligible minority interests, plus deducted elements.

In general, the AT1 category includes equity instruments other than ordinary shares that meet the regulatory requirements for inclusion in that level of Own Funds (e.g. savings shares).

Tier 2 capital is mainly composed of eligible subordinated liabilities.

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

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

The Banking Group constantly assesses its capital structure, developing and utilizing techniques for monitoring and managing regulated risks, including through its internal risks committee. For prudential supervision, the required amount of capital is determined on the basis of the current reporting regulations.

The Banking Group's Own Funds do not include capital items that qualify as Additional Tier 1 Capital (AT1) and Tier 2 Capital (T2).

The following table shows the comparison between the minimum regulatory and supervision requirements and material solvency as of 31 December 2016 and 2015.

	Minimum regulatory requirement (1)	**Capital conservation buffer**	**Minimum regulatory requirement (including Capital conservation buffer)**	**SREP**(2)	**SREP (including Capital conservation buffer)** (2)
CET1 capital ratio	4.5%	2.5%	7.0%	0.3%	7.3%
Tier 1 ratio	6.0%	2.5%	8.5%	1.3%	9.8%
Total capital ratio	8.0%	2.5%	10.5%	2.5%	13.0%

(1) From 31 December, 2014, only the Basel III minimum regulatory requirements shall apply.

(2) The minimum requirement requested following the supervisory activities carried out by the Bank of Italy in 2015. Compliance with the additional requirements set out by the Capital Decision shall be required from the communication on own funds as of 31 December 2015. As provided by the Bank of Italy provision, pursuant to article 67-ter, paragraph 1, of the Consolidated Banking Act, the capital levels assigned following a SREP procedure apply only at a consolidated level.

	As of 31 December 2016			**As of 31 December 2015**		
	Group ex Consolidated Banking Act	**Group ex CRR**(1)	**Issuer**	**Group ex Consolidated Banking Act**	**Group ex CRR** (1)	**Issuer**
CET1 capital ratio	16.7%	16.4%	15.7%	24.3%	23.9%	20.8%
Tier 1 ratio	16.7%	16.5%	15.7%	24.3%	24.0%	20.8%
Total capital ratio	16.7%	16.6%	15.7%	24.3%	24.1%	20.8%

(1) A Group which, on the basis of the EU Regulation no. 575/2013 (CRR), considers BFF Luxembourg S.à r.l. to be at the head and with limitation to the supervisory reports as of 31 December 2015, BFF Luxembourg S.à r.l.

Although the Group's capital ratios shown above indicate an overall downward trend, they are still higher than the minimum requirements imposed by regulators. Other than the notable impact of the Magellan acquisition, the negative trend is due to the Group's acquisition of Magellan, the growth of the business and the implementation of the Group dividend policy. With reference to the Issuer, the capital ratios show a decreasing trend, going from 20.8% as of 31 December 2015 to 15.7% as of 31 December 2016. The required capital conservation buffer for 2016 has been set at 2.5%, while, following the update to Circular 285 on 4 October 2016, this rate has been reduced to 1.25% and 1.875% for the years 2017 and 2018 respectively, before subsequently reverting to 2.5% as of 1 January 2019. It should be noted that the reduction of the capital conservation buffer, introduced by the Bank of Italy, might not be reflected in the final capital requirement imposed by the regulators following the SREP procedure.

Every year we remain subject to a process of prudential supervision and evaluation carried out by the Bank of Italy ("SREP") aimed at ensuring that adequate controls of the organization and liquidity management are in place, in respect of the assumed risk, as well as in stress scenarios. The reduction of the capital conservation buffer requirements introduced by the Bank of Italy, could not be reflected in the final decision of the regulator on our compliance with the relevant capital requirement as part of SREP.

The Board of Directors of the Issuer has adopted a dividend policy which enables the proposal of a distribution of dividends up to 100% of the Group's consolidated net profits for the amount exceeding the 15% Total Capital Ratio target of the Group.

In addition, BFF Luxembourg has undertaken to maintain a dividend policy to its shareholders capable of keeping a Total Capital Ratio not lower than 15%, at both the levels of the Banking Group and the consolidation perimeter for the purposes of the CRR.

The following table sets forth the Group's main solvency indicators as of 31 December 2016 and 2015, pursuant to the Consolidated Banking Act.

	As of 31 December (excluding Magellan)	**As of 31 December**	
	2016	**2016**	**2015**
Solvency indicators			
Common Equity Tier 1-CET 1	259,045	235,345	259,265
Own Funds	259,045	235,345	259,265
Credit risk	58,934	82,998	60,809
Operational risk	26,548	29,775	24,457
Market risk	-	-	-
Interest risk (Pillar II)	7,779	9,259	15,125
Credit risk concentration (Pillar II)	15,244	13,289	11,522
Risk weighted assets	1,068,975	1,410,612	1,065,819
CET 1 capital ratio	24.2%	16.7%	24.3%
Tier 1 ratio	24.2%	16.7%	24.3%
Total capital ratio	**24.2%**	**16.7%**	**24.3%**
Total assets exposure	**4,249,057**	**4.736.264**	**3,336,877**
Risk weighted assets/total assets exposure	25.2%	21.9%	22.8%
Excess capital (Pillar I + Pillar II)	152,495	98,069	147,134

As of 31 December 2016, the Group's Own Funds decreased to €235,345 thousand (from €259,265 thousand as of 31 December 2015) due, mainly, to the acquisition of Magellan which impacted Own Funds by €22.1 million, following the goodwill and capital requirements in relation to the Magellan Group's activities of €20.4 million. Own Funds as of 31 December 2016 do not include the net income of the first half of 2016, assuming a 100% dividend payout for 2016. As of 31 December 2015, Own Funds were equal to €259,265 thousand.

The following table sets forth the Issuer's main Own Funds requirements as of 31 December 2016 and 2015, pursuant to the Consolidated Banking Act.

	As of 31 December	
	2016	**2015**
Common Equity Tier 1 CET1 before prudential filters	261,139	262,012
Elements to be deducted from CET1	(25,795)	(2,747)
Common Equity Tier 1-CET 1	235,345	259,265

The Issuer's capital requirements (Total Capital ratio, Tier 1 Ratio and CET 1 Ratio) are in line with the minimum regulatory and supervisory requirements. In particular, the abovementioned Issuer's requirements Total Capital Ratio are equal to 16.6% and 24.1%% (CRR perimeter), respectively, as of 31 December 2016 and 2015.

The reduction in the "*risk weighted assets/total assets exposure*" is mainly the result of an increase in the volume of purchased receivables owed by counterparties belonging to the Central Administration and local entities primarily in Italy, the weighting for which is lower than the one applied to receivables owed by counterparties belonging to the Italian national healthcare system, as well as of the growing importance to the Group of receivables purchased by Farmafactoring España in the healthcare sector, to which a lower weighting of 20% is applied.

The following tables show the risk-weighted assets and the average weighting of the Group's outstanding assets, related to non-recourse factoring referred to Traditional Activities, broken down by geographical area as of 31 December 2016 and 2015.

	As of 31 December	
	2016	**2015**
Risk weighted assets		
Italy	984,127	976,727
Spain	45,232	58,860
Portugal	39,602	30,232
Poland	287,016	-
Czech Republic	3,695	-
Slovakia	50,941	-
Total	**1,410,612**	**1,065,819**

	As at 31 December	
	2016	**2015**
Average weighting of the outstanding		
Italy	35%	36%
Spain	16%	23%
Portugal	100%	100%
Poland	-	-
Czech Republic	-	-
Slovakia	-	-

The acquisition of Magellan has resulted in an increase in the risk weighted assets as of 31 December 2016 equal to €27 thousand compared to 31 December 2015, as well as an increase in impaired net loans equal to € 9,225 thousand. The Group's credit risk provisions, excluding Magellan, was equal to €19,541 thousand as of 31 December 2016, while those of the Group (including Magellan) were equal to €23,883 thousand as of 31 December 2016. The coverage ratio of the Group's total loans, excluding Magellan, was equal to 0.9% as of 31 December 2016, while that of the Group (including Magellan) was equal to 0.9% as of 31 December 2016. Furthermore, as of 31 December 2016, the Group incurred: costs equal to €7,600 thousand in relation to the Magellan acquisition; inclusive of the costs for obtaining waivers from holders of debt securities that we and Magellan have issued.

In line with the CRR requirements, starting with the reports of 31 December 2015, in the scope of consolidation used exclusively for prudential supervision purposes, BFF Lux Holding has been considered as the parent company of the Group. However, for the purpose of preparing the financial statements and filing "*non-harmonized*" reports, BFF continues to be considered as the parent company of the Group pursuant to the Consolidated Banking Act, as shown in the table above.

Credit risk management policies

Organization

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 synergy to provide analytical and subjective assessments of the counterparties, both from a quantitative (current and past economic conditions) and qualitative (potential credit volumes to be managed) standpoint.
The guidelines and the procedures for monitoring and controlling credit risk for the Issuer are contained in the "Credit Regulation" in force, approved by the Board of Directors on 10 September 2015, and subsequent updates. Magellan on 29 December 2016 and Farmafactoring España actually is reviewing its proper credit regulations.

The Group's "Credit Regulation" describes the phases that in sector regulations are identified as components of the credit process:

- background check;
- decision;
- disbursement;
- monitoring and review;
- dispute.

In order to identify the most important risk factors, the main activities carried out by the Group are described as follows:

- receivables management only;
- non-recourse factoring

Credit risk is therefore adequately safeguarded at various levels within the framework of the multiple operating processes.

Management, measurement and control systems

The assessment of credit risk is part of an overall analysis of the adequacy of the Group's capital in relation to the risks connected with lending. The Group uses the "standardized" approach to measure credit risk, in accordance with 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 17 December 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 counterparty.
Magellan and its subsidiaries apply the same methods of the parent company for calculating capital requirements and monitoring exposures. As a general rule, Magellan enters into relationships with customers with adequate credit capacity and, if necessary, requires appropriate guarantees to mitigate the risk of financial loss resulting from default of customers. The exposure to credit risk of Magellan and its subsidiaries is monitored on an ongoing basis by its Credit Risk Evaluation Department and as a secondary control, by its Risk Management Department, which functionally refers to the Risk Management Department of the parent company.

For each transaction, credit risk is measured at the time of the receipt of the request and then monitored regularly in the following phases, including changes in external conditions and the financial capacity of the borrowers. Magellan, for itself and its subsidiaries, monitors the exposure concentration with reference to individuals or groups of related entities in accordance with the Supervisory Provisions.

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

- 0% for receivables from central administrations and central banks with offices in a European Union member state and financed in the local currency;

- 20% for receivables from territorial entities located in a European Union member state, denominated and financed in the local currency, and for receivables from the Public Administration of countries in Credit Quality Class 1;
  The non-recourse receivables from the Spanish Healthcare System fall into this category because the counterparties of these exposures are represented by the "*Comunidad*" (the Regions);
- 50% for receivables from the Public Administration of countries in Credit Quality Class 2, which include the exposures with entities of the Polish and Slovakian public sector and, up until 31 December 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; and
- 100% for past due loans, if the specific value adjustments are 20% or more of the non-collateralized portion, before value adjustments.

BFF adopted the ECAI Dominion Bond Rating Service (DBRS). The unsolicited rating assigned to the Italian Republic by DBRS, on 13 January 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 31 December 2016.

With regard to the approach used to calculate capital absorption, we have adopted a prudent approach that gives receivables towards public administration debtors (such as the national healthcare services) a weighting according to their relevant ECAI rating (recently downgraded with an effect on the capital absorption passing from 50% to 100%). This approach has an impact on the past due calculation criteria: for BFF, the categorization as past due is linked to the estimated date of payment, and not to the date of the invoice.
There is an alternative approach, adopted by our competitors – but has not been adopted by us as of the date of this Prospectus – that allows the application of a more favorable risk weighting (20%) by taking into consideration the original due date of the receivable. Furthermore, this alternative approach would mitigate the effects of the DBRS rating downgrade of the Italian sovereign debt on the Group's capital resources, as the calculation of capital ratios would not be affected by the rating change, but has an important effect on past due calculation because it is related to the original date of the invoice (under this alternative regime a receivable is qualified as past due even if it is due when purchased, while under the current regime this does not occur as the past due qualification is related to the estimated date of payment; in both cases, a single payment interrupts the qualification of the receivable as past due, however, the alternative approach may have an impact on the purchases of receivables from new debtors, which would have been purchased as already past due and weighted at 150%).
The definition of past due exposures towards the public administration is under review by the European regulator and is expected to change by 2020. In particular, the classification of the exposures towards a debtor in the public administration will be aligned to the classification adopted for the private sector (qualification as past due if overdue exposure is over 5% of the total exposure towards the relevant debtor) instead of the preferential treatment used today (single payment interrupting past due qualification).
The risk weighting factors for the RWA calculation used by the alternative approach do not depend on the downgrade of the Italian sovereign debt. However, the above expected change in the regulatory framework would increase the amount of exposure classified as past due (risk weighted at 150%).

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

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

Capital requirement = 8% RWA

The Risk Weighted Amount (RWA) is determined by the sum of the risk weighted assets of the various classes.

Based on the method described above, the capital requirement covering credit risk at 31 December 2016 is €83,496 thousand.

In the "receivables management only" the credit risk is limited to the Group's exposure with the customer for payment of the stipulated fees and commissions, or the reimbursement of legal fees incurred.
"Non-recourse factoring" represents the most important amount of the whole business carried out by the Group. 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.
In view of the fact that the Group has an exposure that is almost completely comprised of receivables due from the Public Administration, the portfolio risk is thought to be limited.

Regarding risk concentration, the credit risk management process, 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). More specifically:

- a "large exposure" is defined as any position equal to or greater than 10% of the Admissible 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 Admissible Capital corresponds to its Own Funds;

- for banking groups and banks not belonging to a banking group, each risk position must not be greater than 25% of its own funds.

Furthermore, the Group files a monthly report with the "Central Credit Register" (Bank of Italy Circular No. 139 of 11 February 1991, and subsequent updates, "*Central Credit Register. Instructions for Credit Intermediaries*") sending and receiving 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 credit exposure

The Group performs an impairment test on the credit portfolio in order to identify any impairment of its financial assets.

This analysis makes it possible to differentiate between performing and non-performing exposures, 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 assets

The assessment of performing assets applies to those receivables from customers that, while more than 90 days past due, show no objective indication of impairment at the individual level.
The assessment criteria 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 exposures are owed almost exclusively by the public administration, as in previous years, at the date of each annual financial statements or interim reports, the Group, in accordance with the provisions of IAS 39, carried out a collective impairment test of performing exposures.

In order to determine the Loss Given Default (LGD), BFF assumes the value proposed by the "Basel Accord Framework" for unsecured receivables from sovereign states, companies and banks as being equal to 45% of the Probability of Default (PD) found.
The collective assessment of the PD is 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. The results are applied to the whole exposures not classified as non-performing Exposures At Default (EAD). As of 31 December 2016, the impairment test indicated a generic provision of about €3.2 million.

As regards Magellan, the generic provision is calculated, at this time, exclusively on private counterparties. In this case, Magellan carries out a write down of the portfolio by applying to the receivable's purchase value a percentage that varies according to the type of counterparty to which the exposure refers. Magellan also assesses whether to record individual impairments by analyzing the economic and financial situation of the debtor and the actual possibility of recovering the receivable.

Non-performing assets

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

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

2.3 Credit risk mitigation techniques

To 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 24 July 2014, the European Banking Authority (EBA) published the "Final draft implementing technical standards on supervisory reporting of forbearance and nonperforming 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 20 January 2015, call for impaired assets to be classified into the following categories:

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

Past due exposures

These are exposures with central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies that, at 31 December 2016 were more than 90 days past due.
More specifically, exposures towards 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 31 December 2016, net past due exposures total €46,167 thousand for the entire Group. With regard to BFF, these exposures amount to €45,429 thousand, including €38.8 million with the Italian Public

Administration (largely with territorial entities) compared to €9.8 million at 31 December 2015. The amount relating to public companies is €6.2 million and for Magellan is equal to €0.7 million (referring almost entirely to private counterparties).

Unlikely to pay

In the context of defining the different types of exposure, reference is made to so called "unlikely to pay" exposures and the relative probability of a failure to pay is assessed by us concerning the less-than-likely outcome of a full payment of owed amounts (both the principal and/or interest), without having to proceed in security enforcements. Such an assessment must be carried out without taking into account any sums (or instalments) due and not paid.

Therefore, it is not necessary to wait for a clear sign that there is an issue with payment (such as, a failure to pay) where the circumstances imply the risk of a debtors not being able to pay owed amounts. The exposures towards these retail customers may fall into the "unlikely to pay" category in relation to a single transaction, as long as we determine that the conditions for qualifying the total number of exposures towards a same debtor are not in place.

As of 31 December 2016, the Group recorded an amount of net unlikely to pay exposures equal to €3,614 thousand, all referable to Magellan's business.

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 31 December 2016, total non-performing exposures of the Group, net of write downs for estimated impairment losses, amount to €12.1 million. Gross non-performing exposures including the provision for late-payment interest amount to €30.0 million and the relative impairment losses total €17.9 million with a coverage ratio of 59.8%.

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

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

The other non-performing positions total about €8.6 million, including positions amounting to about €1.7 million that were completely written off against the provision for impairment and consequently have a zero balance. BFF's remaining positions, totaling about €6.9 million, are written down based only on the time value, as they consist of positions secured by sureties and exposures with local government entities in distress (including €0.5 million already purchased as in default), 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 the late-payment interest fund relating to non-performing positions, recognized when the estimate criteria 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 write downs due to estimated impairment losses of €1,950 thousand, are €4,872 thousand.

Unlike the considerations made for nonperforming 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.

Securitization transactions

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, 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 25 August 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 31 July 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 Deutsche Bank A.G., based on available cash, when either the sale and/or requests for payment of collections of receivables sold to the SPV are higher than the overcollateralization ratio established by contract.
At the end of the revolving period there will be a two and a half years amortization period correlated to the performance of existing receivables collection during which the securities will be repaid.

Description of the risk profile

BFF, as the originator, maintains a role in the securitization transaction, even though it sells the receivables on a non-recourse basis.
This transaction calls for a credit enhancement mechanism through an overcollateralization ratio (equal to 137.93% of the amount of the securities issued) and a subordinated loan carried by BFF.

Following the renewal, the Deutsche Bank A.G. 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 31 December 2016) or, and only as regards BFF,
(ii) terminate the program by buying back all the outstanding receivables by the January 2017 payment date during the revolving phase (by sending the relative communication by 31 December 2016), or at any time during the amortization period.

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

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

Sub-servicer activity

We have a mandate for the recovery and collection of receivables on behalf of the servicer Zenith Service S.p.A.

Following the sales of receivables made during the revolving phase of the transaction, the nominal outstanding amount of receivables as of 31 December 2016 and 2015 was about €140.3 million and €250.5 million, respectively.

Liquidity risk

Liquidity risk is the possibility that we will be unable to fulfil our payment obligations due to the inability to access funds on the financial market, or limits that are present which restrict the disposal of assets. This risk also includes the inability to find adequate new funding resources, in terms of amount and cost according to operating necessities, which would force us to slow or halt the development of activities or sustain excessive funding costs to meet our obligations, with significant adverse impacts on the profits of our business.

Liquidity risk may be manifested through the following risk components:

- Liquidity Mismatch Risk: the risk of mismatch between the amounts and/or the timing inflows and outflows.
- Liquidity Contingency Risk: the risk that unexpected future events may require a materially larger amount of liquidity than the business currently requires in a business-as-usual scenario. This risk may arise from events such as a failure to renew loans, the need to finance new activities, the difficulty in disposing of liquid assets or in obtaining new loans in the event of a liquidity crisis;
- Market Liquidity Risk: the risk of incurring losses on liquidating assets that would be considered liquid under normal market conditions;
- Operational Liquidity Risk: the risk of being unable to fulfil payment obligations due to errors, violations, interruptions or damages due to internal processes, persons or external events, even though we are in a situation of financial stability; and
- Funding Risk: the risk of incurring a loss due to the inability to draw from sources of financing at an economical cost to meet obligations and/or the possible increase in the costs of funding due to a change in rating (internal factor) and/or a wider gap in the credit spreads (external factor).

Our liquidity needs are monitored by the Finance and Credit Department and centralized at a Group level in order to ensure an efficient management of *short* and *medium-to-long* term liquidity, both in terms of returns and maintaining a sustainable ratio between *inflows* and *outflows*, in compliance with the Bank of Italy's regulations for prudential supervision purposes.

Regarding our policy on the management of *short* term liquidity, we have established specific monitoring activities, including:

- execution and monitoring of payment and collection activities;
- analysis of our *short* term liquidity position;
- execution of *Asset Liquidity Management* operations in the *short* term; and
- arrangement of credit lines from third-party banks.

As regards our policy on the management of *medium-to-long* term liquidity, we have established specific monitoring activities, including:

- analysis and control of our financial position by monitoring the so called *gap analysis*;
- activation, execution and management of the *medium-to-long* term funding operations;
- management of the economic terms and contractual provisions of our *medium-to-long* term funding;
- management of hedging derivative instruments.

In accordance with Bank of Italy's regulations concerning prudential supervision, we have adopted a "risk management policy for the Group", a treasury and finance regulation, and an emergency plan or "contingency funding strategy" (contingency funding plan according to Bank of Italy Circular No. 285/2013) aimed at maintaining a high degree of diversification in order to reduce liquidity risk, and specifying the organisational

units responsible for the operational and structural management of liquidity risk and clarifying the measures they devise. The aforementioned documents have been updated following the incorporation of Magellan into the Group. The internal regulations set out:

- the criteria for managing liquidity risk, defined in relation to our specific operations and the potential sources of liquidity risk;
- the operating procedures through which we monitor 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 carrying out *stress tests*, aimed at measuring in quantitative terms our capacity to meet potential adverse events that could affect the level of liquidity risk; and
- the contingency funding plan that defines the strategies and organizational and operating procedures for managing 'early warning', 'warning' and 'crisis' situations, as well as who is responsible for them.

In order to ensure the management and control of liquidity risk, we have adopted a governance model based on the following principles:

- separation between the processes for managing liquidity and processes for controlling liquidity risk;
- developing the processes for the management and control of liquidity risk, consistent with the hierarchy structure and through a delegation of responsibilities;
- sharing of the decisions and clarifying the responsibilities of management and control units;
- conforming the management and monitoring processes of liquidity risk with prudential supervisory indications.

Stress tests on liquidity risk were conducted for the purpose of evaluating the potential impacts of stress scenarios on our financial conditions.

The Liquidity Coverage Ratio of the Group shows an increasing trend between 31 December 2015 and 31 December 2016, passing from 391.3% to 502%. Excluding Magellan's contribution, the Liquidity Coverage Ratio was equal to 651% as of 31 December 2016. The regulatory limits concerning the Liquidity Coverage Ratios are equal to 60% for 2015, 70% for 2016, 80% for 2017, 90% for 2018 and 100% for 2019.

As of 31 December 2016, the Net Stable Funding Ratio of the Group is equal to 115.3%. In relation to the Net Stable Funding Ratio, the regulatory limit will enter into force in 2018 and it is set at 60% for 2018 and 100% for 2019. The relayed data concerning both indicators have always been above the thresholds set by the regulator (and therefore are above the thresholds provided by the Bank of Italy Circular No. 285 of 2013).

Counterbalancing Capacity

The counterbalancing capacity represents the Group's capacity to cover short-term costs through immediate liquidity from their asset balance sheet.

The total amounts available for the Group's counterbalancing capacity, as of 31 December 2016, amounted to €200.5 million and consist exclusively of bonds issued by the Italian government with an equivalent value of €205.6 million.

	Short term liquidity		
(in € millions)	**T+1**	**T+20**	**T+60**
Cash Flow	135	(834)	(1,124)
Counterbalancing Capacity (CBC)	212	1,124	1,360
Difference	347	290	236

In the table below are the monthly amounts held in available bonds for counterbalancing capacity.

(in € millions) *Net of ECB haircut*	***Total amount available in Counterbalancing Capacity***
January -16	126
February -16	131
March -16	128
April - 16	126
May - 16	111
June -16	111
July-16	112
August-16	112
September-16	113
October-16	112
November-16	111
December-16	206

Operational risk

Operational risk is defined as "*the risk of loss resulting from inadequate or failed internal processes, human resources and systems or from external events. This type of risk includes, among other things, losses from fraud, human error, interruptions, system unavailability, contractual breaches, natural disasters. Operational risk includes legal risk, but excludes strategic and reputational risk* ".

With the goal of making more efficient the management of operational risks, the Group has set up a system and a qualitative process of self-assessment aimed at verifying the adequacy of Internal Capital determined to face of this type of risk.

In particular, the Group has set up a process of detection and risk assessment based on qualitative methodologies of risk self-assessment (so called "risks and controls map") in order to achieve greater awareness of exposure to operational risk, timely detection of inefficiencies in the organization and the consequent establishment of appropriate risk mitigation strategies.

The monitoring of the risks and controls map is assured by the Risk Management Function with the support of the Risk Management Reference Person and the Head of the Risk Management Function of the Subsidiaries.

The Group uses the Basic Approach (BIA - Basic Indicator Approach) for calculating the capital requirement for operational risk.

In specific, the determination of Internal Capital facing operational risk by applying, according with the Supervisory Rules, a regulatory coefficient to an indicator of the company's turnover (Relevant Indicator).

The capital requirement is expressed by the following formula:

$$BIA = \sum(IR\ 1 \ldots n * \alpha) / n$$

Where:

- <u>IR</u>: *Relevant indicator, if positive, over the previous three observations*;
- <u>n</u>: number of years in which gross income is positive;
- <u>α</u>: 15% established by the Basel Committee that reports, to the sector as a whole, the level of capital required and of the indicator.

The Supervisory Rules provide, therefore, that the capital requirement in the Base Approach is equal to 15% of the average of the last three observations of the Relevant Indicator annually, referring to the situation at end of the exercise.

The Issuer, in order to better monitor operational risk, defined a macro-process of Operational Risk Management (hereafter also "OMR") aimed at defining the principles, activities, roles and relating responsibilities in the matter of operational risks management at Group level. For the monitoring of operational risks, being them intrinsically associated with the running of company's processes, the Group assigns a responsibility direct and common to all staff and, in particular, to the staff entrusted with the responsibility of a Corporate Structure. Accordingly, all Group's Corporate Structures, each for the respective scope of competence, are called to actively commit to identifying operational risks on an on-going basis, reducing the likelihood of occurrence and/or the impact of operation risk events and cooperating with the structures in charge of the management and control process of the same risks. With regard to Magellan, as of the date of this Prospectus the assessment process relating to Operational Risk Management is ongoing.

To control the above risks, we adopt new measures when necessary for the management of risks such as money laundering, health and safety in the workplace and information security.

On the basis of the above methodology, the capital requirement for operational risk as of 31 December 2016 and 2015 is equal to €29.8 million and €24.5 million respectively.

Counterparty and Credit risk

Counterparty risk represents the risk that a counterparty will not perform its obligations under the agreements.

Credit risk represents the possibility of incurring losses due to a debtor's default and insolvency. It is linked to the possibility that an unexpected change in the creditworthiness of the debtor, towards which an exposure exists, generates a corresponding decrease in the value of the credit position.

Our counterparty risk is primarily due to repurchase transactions with *Cassa Compensazione e Garanzia*. To measure the counterparty risk in repurchase transactions the simplified method is used so that the part of exposure covered by collateral is assigned a weighting factor that corresponds to the weighting factor assigned to the instrument used as collateral.

Most of our assets consist of Government Bonds and factoring assets, the latter are regulated by the Italian Civil Code and by Law No. 52 of 21 February 1991 and subsequent laws, comprised of a plurality of financial services (articulated in various ways) through the sale of trade receivables on both a "with" recourse and "without" recourse basis. As of 31 December 2016, our total weighted exposure to credit risk was €82,998 million.

The purpose of exposure relating to government bonds, almost entirely classified in the HTM portfolio is to optimize the cost of funding.

Such debt securities have a fixed interest rate (BOT, BTP, CTZ) and their maturity matches that of the unsecured and committed funding. They have been classified in the HTM portfolio and therefore they are accounted at their amortized cost in our accounts in accordance with the effective rate of return.

Given the investments in government debt securities, during the financial year, we refinanced: (i) by participating in the open market operations program with the ECB managed by the Eurosystem (currently, in full allotment until 31 December 2017), and (ii) through repo transactions, mainly on the MTS platform managed by the *Cassa Compensazione e Garanzia*.

As of 31 December 2016, the government bonds portfolio is financed, for €1,770.5 million, by repo transactions, while no ECB financing is in place.

The AFS portfolio (amounting to €375 million as of 31 December 2016) is composed of government debt securities (bonds) purchased by BFF, to face the liquidity risk and optimize the cost of funding. These securities have a floating interest rate and will reach maturity in five years. Their evaluation is carried out at fair value, the interest calculated in accordance with their rate of return being recorded in our profit and loss.

As of the date of this Prospectus, the face value of the securities is compared to their fair value and the difference is recorded in our net income (specifically, in the evaluation reserve).

On 24 January 2017, the Bank of Italy published a communication relaying certain clarifications concerning the regulatory framework of rules relating to non-incurred profits and losses, which derive from exposures towards central public administrations classified as AFS. The Bank of Italy specified that, while a formal clarification on this issue is still to be issued, less significant banks may continue recording in net income.

In accordance with the provisions of Bank of Italy Circular 262 of 22 December 2005—"*The Financial Statements of Banks: layout and preparation*", and subsequent updates, whose definitions are established in Bank of Italy Circular 272 of 30 July 2008 "*Matrix Accounts*", and subsequent updates, we have divided our assets between "performing" and "impaired".

Performing assets include:

- Past due not impaired exposures: exposures past due more than 90 days, which are not considered impaired according to prudential regulations, and exposures that are past due and/or over the limit by not more than 90 days; and
- Not impaired exposures: exposures not falling within the preceding category.

Impaired assets include:

- Past due exposures: these are exposures to central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies which, as of 31 December 2015, are past due more than 90 days; in particular, exposures to central administrations and central banks, public sector entities and territorial entities, are considered past due when the debtor has not made any payment for any debt positions due to us for more than 90 days;
- Unlikely to pay: this type of exposure represents our assessment that, without recourse to actions such as the realization of collateral, it is unlikely that the debtor will pay (principal and/or interest) its credit obligations in full. This assessment is conducted regardless of the existence of any past due and unpaid amounts (or instalments); and
- Non-performing exposures: these refer to exposures to parties that are in a state of insolvency or in similar situations, regardless of any estimates of loss formulated by us.

With regard to the method adopted in determining accounting impairment adjustments, we have carried out an analysis of our assets portfolio for the purpose of identifying any impairment of financial assets.

This analysis made it possible to distinguish between "performing" and "non-performing" assets; included in the non-performing category are financial assets that show an individual risk of loss, while the remaining financial assets are classified in the performing category.

Performing assets include those assets from customers which, although past due more than 90 days, show no objective indication of loss at an individual level.

Two different measurement approaches have been adopted depending on the classification of the exposure.

As regards non-performing assets, we determine the probable impairment losses to be recorded through internal valuations and external legal opinions on the individual credit positions.

The following table sets forth the main indicators concerning the Group's credit quality, computed based on our consolidated statement of financial position as of 31 December 2016 and 2015.

	As of 31 December	
	2016	2015
Credit quality		
Gross non-performing exposures performing when purchased	29,032	17,010
Gross non-performing exposures non-performing when purchased	971	812
Net non-performing exposures performing when purchased	11,573	1,764
Net non-performing exposures non-performing when purchased	492	743
Gross doubtful loans	3,715	-
Net doubtful loans	3,614	-
Gross past-due exposures	**46,250**	**43,310**
Net past-due exposures	**46,167**	**43,234**
Net non-performing exposures performing when purchased / due from customers	0.5%	0.1%
Net non-performing exposures non-performing when purchased / due from customers	0.0%	0.0%
Net impaired exposures performing when purchased / due from customers [(2)]	2.5%	2.3%
Net impaired exposures non-performing when purchased / due from customers [(2)]	0.0%	0.0%
Losses on loans and receivables / due from customers-factoring	0.6%	0.1%

(2) Net impaired exposures are the sum of net non-performing exposures, net doubtful loans, net past-due exposures.

The following table shows the same indicators on the credit quality set forth above calculated on our balance sheet as of 31 December 2016, excluding the balances of Magellan in order to show the impacts of the Magellan Transaction.

	As of 31 December 2016
	(in € thousands)
Credit quality	
Gross non-performing exposures performing when purchased	22,210
Gross non-performing exposures non-performing when purchased	971
Net non-performing exposures performing when purchased	6,701
Net non-performing exposures non-performing when purchased	492
Gross doubtful loans [(1)]	-
Net doubtful loans [(1)]	-
Gross past-due exposures	**45,511**
Net past-due exposures	**45,429**
Net non-performing exposures performing when purchased / due from customers	0.3%
Net non-performing exposures non-performing when purchased / due from customers	0.0%
Net impaired exposures performing when purchased / due from customers	2.1%
Net impaired exposures non-performing when purchased / due from customers	0.0%
Losses on loans and receivables / due from customers-factoring	0.4%

For the years 2014 through 2016, the Group's percentage of non-performing loan coverage generally has been lower than the market, primarily due to the fact that the Group's debtors are almost exclusively public or publically owned joint stock companies and, as such, carry a lower default risk than retail and corporate debtors. As of 31 December 2016, the Group's percentage of liabilities coverage, although slightly reduced, is higher than that of their competitors'. This decrease is primarily due to the increase in receivables purchased from municipalities, provinces and mountain districts. In the case of those non-performing receivables towards the abovementioned debtors, we do not proceed to set up any kind of provision or write-down, as we wait for the entity to make a financial recovery in order to obtain the entirety of the owed amounts.

The following table shows the indicators of net doubtful loans / assets (including net income), large exposures / net loans to customers and credit risk cost as of 31 December 2016 (for the Group and the Group excluding Magellan) and as of 31 December 2015 for the Group.

	As of 31 December 2016		
	Group	Group excluding Magellan	As of 31 December 2015
Solvency indicators			

	As of 31 December 2016		
	Group	**Group excluding Magellan**	**As of 31 December 2015**
Indicators			
Net non-performing loans / shareholders' equity (including net profit)	3.62%	2.16%	0.76%
Large exposures / net loans to customers [(1)]	10.3%	10.5%	13.5%
Large exposures / total assets	5.4%	5.5%	8.0%
Credit risk cost [(2)]	0.09%	0.05	0.06%

(1) Ratio between the weighted value of the large exposures and the value of net loans to customers.
(2) Ratio of the impairment losses on loans and the value of net loans to customers.

The following table shows the breakdown of Large Exposures by country.

	As of 31 December	
	2016	**2015**
Large exposures		
Italy	226,791	-
National Health Service	146,589	177,737
Territorial Entities	-	13,521
Authorized Intermediaries	79,402	29,674
Clearing Systems	800	89
Other counterparties	-	32,612
Spain	5,377	-
Territorial Entities	5,377	10,942
Poland	25,283	-
National Health Service	25,283	-
Total	**257,451**	**264,575**

Furthermore, with reference to our credit quality as of 31 December 2016 and 2015: (i) the ratio of gross loans and gross impaired loans to total loans amounted to 3.2% and 3.1%, respectively (ii) the ratio of gross non-performing loans to gross loans amounted to 1.2% and 0.9%, respectively; (iii) the percentage of provision coverage of impaired loans amounted to 22.7% and 25.2%, respectively; (iv) the percentage of provision coverage of non-performing loans is 59.8% and 85.9%, respectively and (v) the ratio of risk-weighted assets to loans to customers (RWA density) amounted to 56.4% and 64.3%, respectively.

The ratio of impaired loans and non-performing loans to consolidated net loans is equal to 2.5% and 0.5% as of 31 December 2016 and 2.3% and 0.1% as of 31 December 2015 respectively. These values are the same as those at the parent level (which is the consolidation perimeter for the purposes of the CRR).

The following table shows the main indicators of creditworthiness determined on the basis of Magellan's consolidated results as of 31 December 2016 and 2015.

	As of 31 December	
	2016	**2015**
Risk Ratios		
Impaired loans/Net loans to customers	0.5%	0.1%
Impaired loans coverage ratio	22.7%	25.2%

Interest rate risk

The risk of movements in interest rates is defined as "*the risk arising from potential movements in interest rates*"[6].

In this context, the Finance and Credit Department of the Parent Company, with the support of the homologous structure of the Subsidiaries, monitors interest rate movements risk at Group level ensuring that the market base rate of funding is correlated to the employment rate according to the limits laid down by the BOD, implementing fixed-rate loans and operations tools derivatives with only used to hedge (no position can

[6] Circular 285, Part One, Title III, Chapter 1, Annex A "Risks to be subjected to assessment in the ICAAP"

be taken for speculative purposes).

For the assessment of the risk arising from potential movements in interest rates, the Group adopts the regulatory methodology governed by Annex C of the Circular 285/2013 (Part One, Title III, Chapter I). The various items exposed to this type of risk are allocated according to the criteria set out in the Circular of the Bank of Italy 272 "Manual for drawing up the accounts of the matrix" and in Circular 115 "Instructions for preparing supervisory reports on a consolidated basis of credit institutions", except for accounts overdrafts and demand deposits, which are distributed in the" visible range ", for a fixed rate of 25% (so-called "non-core"). For the remaining amount (the "core component"), in the successive eight time bands (from "up to 1 month" to "4-5 years") in proportion to the number of months contained in them. In the calculation of Internal Capital under ordinary conditions it's referred to the annual movements in interest rates occurring in a 6-year period of observation, considering either the 1st percentile (lower prices) or 99° (upward) and ensuring the constraint of not negativity rate.

The capital absorption in respect of interest rate change risk is determined monthly in the context of first-level checks by the Finance and Credit Department of the Parent Company and the homologous structure of the Subsidiaries. In addition, the Risk Management Function, on a quarterly basis, monitors, with the support of the Risk Management Reference Person and the Head of the Risk Management Function of the Subsidiaries, the performance of the risk index and the Internal Capital estimated in light of this type of risk

The interest rate management framework as of 31 December 2016, points to a potential loss of value in the present value of cash flows, in the event of a market shock, referred to the annual movements in interest rates occurring in a 6-year period of observation, considering either the 1st percentile (lower prices) or 99° (upward) and ensuring the constraint of not negativity rate increase in interest rates, equal to €9.3 million.

Foreign exchange risk and exchange rate risk

Foreign exchange risk is defined as the possibility that foreign exchange rate fluctuations produce significant changes, both positive and negative, in balance sheet totals. The main sources of exchange rate risk come from foreign currency loans and deposits held by corporate and retail customers; purchase of securities, equity investments and other financial instruments in foreign currencies; converting assets, liabilities and income from branches and subsidiaries outside Italy into Euros; trading in foreign currencies and banknotes; and collection and/or payment of interest, commissions, dividends and administrative costs in foreign currencies.

Our foreign exchange risk deriving from exposures in foreign currencies in the banking book is systematically transferred from the relevant business units to our Treasury Department in order to eliminate such risk before maturity. Our subsidiaries carry out similar risk containment measures for their own banking books. We mitigate foreign exchange risk by raising funds in the same currency as the assets we hold.

Exchange rate risk is represented by the Banking Group's exposure to fluctuations in exchange rates, which include transactions in foreign currency and those that provide for indexation clauses linked to exchange rate trends of a specific currency. As of 31 December 2016, our asset portfolio is expressed in euros, Polish zloty and Czech koruna. Therefore, we do not have any risk connected with the volatility of foreign currencies.

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

Exchange rate risk is hedged by instruments that are linear and without optional components such as forex swaps and forex forwards. This offers the Group an adequate hedging of exchange rate risk on the loans denominated in a foreign currency which extends to the subsidiaries that carry out business transactions using currencies other than the euro.

The companies of the Group use the same instruments mentioned above to hedge exchange rate risk, after checking with BFF.

Market risk

Market Risk represents the risk of losses deriving from adverse movements of market prices (stock prices, interest rates, exchange rates, commodity prices, risk factors volatility, and so on) as regards the trading book for supervisory purposes (position, settlement, concentration, exchange and commodity positions risks).

This risk is relevant for the Group due to use of derivative instruments aiming at reducing potential negative effects deriving from interest rates movements (for the share of instruments, not classified as "hedging" under an accounting point of view) and for the exposure to the foreign-exchange risk.

The Group does not carry out trading activities on financial instruments; the only positions included in the trading book for supervisory purposes are represented by derivative contracts on interest rates that, although used with the exclusive purpose of hedging interest rate risk, relating to the purchase activity of credits on a definitive basis, do not fall within the accounting notion of "hedging instrument". Market risk recognized by the Group, accordingly, makes reference to position risk relating to said derivative financial instruments; the limited exposure to risk does not require the use of control tools additional to those dedicated to ordinary management and those identified with reference to interest rate risk.

The regulation identifies and regulates the treatment of the various types of market risk in reference to the regulatory trading book, in which there were no outstanding positions as of 31 December 2016.

Guarantees, Liabilities and Encumbered Assets

With reference to the supervisory provisions relating to "asset encumbrance" we have adopted a specific internal policy, aimed at defining the operational areas linked to the possibility of encumbering the on-balance sheet assets shown in our consolidated financial statements, and a procedure for the identification, management and monitoring of encumbered assets, their related risk and the internal functions and bodies involved in such a process.

The operational areas linked to the possibility of encumbering the on-balance sheet assets refer to: (i) government securities, that may be used for the collection of short-term liquidity through the participation in ECB open market operations or the subscription of repurchase agreements with *Cassa Compensazione e Garanzia* through the MTS platform or Over The Counter (OTC); (ii) trade receivables and/or receivables deriving from financial activities that are "ECB eligible", that may be used to conduct refinancing operations with the ECB, according to the rules on eligibility established by the ECB itself; (iii) trade receivables and/or receivables deriving from financial operations that could potentially be encumbered as underlying assets for the collection of medium-to-long term liquidity, typically as a collateral for securitizations or secured funding operations; and (iv) guarantee funds and margins placed on settlement systems and central counterparties.

The type of risk which may have a major impact on our encumbered assets is represented by the risk of deterioration of their creditworthiness, in respect of which qualitative and quantitative limits have been set.

The following chart shows the amount of our guarantees, liabilities and encumbered assets as of 31 December 2016 and 2015.

	As of 31 December	
	2016	2015
Guarantees provided and commitments		
Financial guarantees provided to banks	22	-
Irrevocable commitments to disburse funds towards customers (uncertain use)	127,986	117,461
Total	128,008	**117,461**
Assets pledged to secure the Group's liabilities and commitments	-	-
Available-for-sale financial assets	185,165	326,029
Held-to-maturity financial assets	1,623,209	822,350
Receivables and loans	630,024	651,515
Total	2,438,398	**1,799,894**

Irrevocable commitments to disburse funds towards customers (uncertain use) related to commitments to purchase receivables that are already defined.

With reference to the assets pledged to secure the Group's liabilities and commitments as of 31 December 2016:

- available-for-sale and held-to-maturity financial assets are represented by government securities assigned as a collateral during operational activities with the ECB and by repo transactions; and
- receivables and loans are composed of €136,717 thousand of non-cancelled transferred receivables in the ongoing securitization, €332,168 thousand of receivables assigned as collateral to financing operations with Ifitalia and UniCredit Factoring and €160,476 thousand relate to activities of the Magellan Group.

Unencumbered assets

Disclosure of encumbered and unencumbered assets by banks is required by Bank of Italy Circular 285, in the manner established by the European Banking Authority guidelines of 27 June 2014.

In particular, the purpose of the required disclosure is to assess the institutions' recourse to types of secured funding (for example, guaranteed bank bonds, repurchase agreements, credit lines from central banks).

Encumbered assets are those used as collateral, subject to limitations on withdrawal or otherwise reserved to improve credit (credit enhancement).

Beginning from the disclosure report as of 31 December 2016, the information published on encumbered and unencumbered assets is calculated on the basis of the average values of the quarterly data relating to the year 2016, as established in the EBA/GL/2104/03 guidelines.

Disposable Unencumbered Assets

The amount of *unencumbered assets* available for the Group, that could be used as collateral to obtain additional financing both on the market and in the context of refinancing operations with the ECB, or with respect to the necessary financial resources to face the additional demand of collateral in circumstances of stress (a "contingent encumbrance"), valued at €103,421 thousand as of 31 December 2015 and pertains to government securities classified in our AFS portfolio.

Leverage risk

As set out in the Commission Delegated Regulation (EU) 2015/62, we calculate the leverage ratio at the end of every quarter on a consolidated basis. This ratio is calculated as the ratio of Tier 1 Capital and a denominator based on non-weighted existing assets by their degree of risk.

The risk of excessive leverage is treated consistently with the rationale adopted for the risk appetite framework, by a current and prospective assessment carried out on the values assumed by the indicator, included in the set of indicators used by us to determine its capital policy correlated to the level of asset growth.

The Group's leverage ratio as of 31 December 2016 and 2015 was equal to 4.9% and 6.1% respectively, all of which were above the minimum 3% threshold set out in the amendment to "*Basel III Leverage Ratio Framework and Disclosure Requirements*" published on 11 January 2014 by the Basel Committee. This threshold will come into force in 2018 and does not constitute a minimum regulatory amount, rather an approximate threshold suggested by the Basel Committee.

The table shows that the leverage ratio of the Group as of 31 December 2016 is shown with reference to the upper limits of the Group from the BFF Lux Holdings ratings, in line with the CRR regulation.

(In percentages)	**As of 31 December 2016**		**As of 31 December**	
	Group	**Group excluding Magellan**	**2016**	**2015**
Leverage ratio	4.9%	5.9%	4.9%	6.1%

The financial leverage indicators' downward trend over the course of the period in question is primarily due to the increase in the Group's business, which has predicated an increase in activity. Following the supervisory reporting of 31 December 2016, the acquisition of the Magellan Group has heightened this effect, and, following the recognition of goodwill, has also caused a loss of around €24 million to the Group's consolidated Own Funds, which in turn has an effect on the indicators themselves.

Magellan Risk management

Credit risk

The purpose of credit risk management is to build a strong and balanced portfolio of financial assets to minimize the risk of impaired loans and at the same time generate the expected profit margin and the expected value of the loan portfolio.

Liquidity risk

The liquidity risk is defined as the risk of not being able to meet payment obligations due to the inability to raise funds on the market and to dispose of its assets, and is managed through the financial planning of the Group.

The liquidity management activity is subject to the direct control of the Issuer. The Treasury structure of Magellan reports functionally to the structures in the Finance and Credit Department, as well as which the Risk Management Department of Magellan reports functionally to the Risk Management Department of the Issuer.

Magellan, therefore, can manage liquidity prior to authorization and under the control of the Parent.

Liquidity risk is measured by the Risk Management Department of the parent company, with the support of the Finance and Credit Department of the parent company, the Treasury structure of Magellan and the Head of Risk Management of Magellan.

Market risk

Market risk is the risk of loss arising from adverse changes in market prices (stock prices, interest rates, exchange rates, etc.) with respect to the trading portfolio for supervisory purposes (position risk, regulation, concentration, currency and commodities position).

Magellan does not carry out trading activities on financial instruments; the only positions included in the trading portfolio are represented by derivative contracts which, although used for the sole purpose of hedging against market risk, may not fall within the hedging activities in accordance with IFRS.

As for Exchange Risk, the coverage is expected to cover positions in foreign exchange related to the core business carried out in the Czech Republic.

The management of market risk of Magellan and its subsidiaries is subject to the direct control of the Issuer. The Treasury structure of Magellan reports functionally to the relevant structures of the Finance and Credit Department of the Issuer, as well as which there is the same functional reporting dynamic between the Risk Management Department of Magellan and that of the Issuer.

Strategic risk

Magellan is strongly influenced by the macroeconomic environment in which it operates, including steps taken by the legislature and their competitors' activities. The overall structure of the health system and the legal environment significantly affect the activities of Magellan and its products. Possible regulatory changes are in any case difficult to predict for the BFF Group. We believe, however, that the business diversification in terms of markets (expansion to foreign markets) and sectors (the introduction of new products), can mitigate risks related to new legislative developments that apply to the public sector, and expected changes in terms of the financing of the health system.

The risk management activities by Magellan are subject to the direct control of the Issuer. Certain corporate functions, including Risk Management, Treasury and Administration, are in fact in a functional relationship status compared to our correspondent business functions and their regulations are approved in advance by the Issuer itself.

SELECTED STATISTICAL INFORMATION

The following tables set forth certain selected statistical and other information regarding our banking operations for the years ended 31 December 2016 and 2015 derived from our Consolidated Financial Statements.

Average balances and interest rates

Unless otherwise disclosed, the following table presents average balances of assets, liabilities and shareholders' equity of our Group for the years ended 31 December 2016 and 2015and, for interest earning assets and interest bearing liabilities, provides the amount of interest earned or paid and the average rate of such interest for such asset or liability, as applicable for each period.

	As of 31 December					
	2016			2015		
	Average balance[(1)]	Interest	Average yield/ rate	Average balance [(1)]	Interest	Average yield/rate
	(in € thousands, except percentages)					
Assets						
Interest earning assets:						
Financial instruments excluding loans	1,666,364	3,994	0.2%	1,372,168	5,848	0.4%
Due from Banks	82,628	93	0.1%	86,505	144	0.2%
Due from customers	2,095,942	186,138	8.9%	1,594,721	155,952	9.8%
Total interest earning financial instruments	**3,844,934**	**190,225**	**4.9%**	**3,053,394**	**161,944**	**5.3%**
Other assets	6,108	-	0.0%	5,209	2	0.0%
Total assets	**3,851,043**	**190,225**	**4.9%**	**3,058,603**	**161,946**	**5.3%**
Liabilities						
Interest bearing liabilities:						
Due to banks	475,681	6,564	1.4%	524,824	7,688	1.5%
Due to customers	2,402,234	6,557	0.3%	1,626,805	8,571	0.5%
Debt securities in issue	557,250	16,968	3.0%	452,258	12,579	2.8%
Financial liabilities held for trading	74	930		-	60	-
Total interest bearing liabilities	**3,435,239**	**31,019**	**0.9%**	**2,603,887**	**28,898**	**1.1%**
Other liabilities	101,101	-	0.0%	116,920	-	0.0%
Hedging derivatives	35	1	2.8%			
Total liabilities	**3,536,340**	**31,020**	**0.9%**	**2,720,807**	**28,898**	**1.1%**
Net interest margin	-	**159,205**	**4.1%[(2)]**	-	**133,048**	**4.3%[(2)]**
Loan deposit rate spread			8.1%[(3)]	-	-	8.8%[(3)]
Interest bearing asset and liability spread			4.0%[(4)]	-	-	4.2%[(4)]

(1) Average of end-of-three months balances.
(2) Difference between average yield/rate on total assets and on total liabilities and shareholders' equity.
(3) Difference between average yield/rate on loans and receivable with customers and securities.
(4) Difference between average yield/rate on total interest earning assets and on total interest bearing liabilities.

The composition of Group lending, excluding Magellan, during the period 2015-2016, in terms of average balances, is characterized by: (i) the prevalence of due from customers, the relative total weight percentage was equal to 52.2% and 54.4% in 2015 and 2016 respectively, and (ii) an increase in percentage terms of financial assets, which rose from 44.9 % in 2015 to 43.3% in 2016.

The average yield of receivables from customers, amounted to 8.9% and 9.8% in 2016 and 2015, while the average return of financial assets amounted to 0.2% and 0.4% in 2016 and 2015, respectively.

The composition of the Group's sources of funds, excluding Magellan, during the period 2015-2016, in terms of average balances, is characterized by: (i) the increase as a percentage of due to customers, which increased from 62.5% in 2015 to 69.9% in 2016 (ii) the decrease as a percentage of bank debt, which decreased from 20.2% in 2015 to 13.8% in 2016, and, (iii) the decrease as a percentage of outstanding securities, which decreased from 17.4% in 2015 to 16.2% in 2016.

The average rate of amounts due to customers amounted to 0.3% and 0.5% in 2016 and 2015 respectively. The average rate of amounts due to banks amounted to 1.4% and 1.5% in 2016 and 2015 respectively. The average rate of outstanding securities amounted to 3.0% and 2.8% in 2016 and 2015.

Interest rate data

Net Changes in interest margin and expenses-Volume and rate analysis

The following table sets forth, by category of interest earning assets and interest bearing liabilities, changes in our Group's net interest margin among changes in average volume, changes in average rate and changes due to the effects of both rate and volume for the indicated periods.

Volume and rate variances have been calculated based on movements in average balances over the period and changes in interest rates on average interest earning assets and average interest bearing liabilities.

	Year ended 31 December 2016 compared to year ended 31 December 2015			
	Volume[1]	**Yield/rate[2]**	**Volume and yield/rate[3]**	**Total net change[4]**
	(in € thousands)			
Interest earning assets				
Financial assets	1,254	(2,559)	(549)	(1,854)
Loans and receivables to banks	(6)	(47)	2	(51)
Loans and receivables to customers	49,016	(14,327)	(4,503)	30,186
Total interest earning assets	50,263	(10,880)	**(11,102)**	28,281
Other assets	0	(2)	(0)	(2)
Total assets	50,263	(10,882)	**(11,103)**	28,279
Interest bearing liabilities				
Due to banks	(720)	(446)	42	(1,124)
Due to customers	4,085	(4,131)	(1,969)	(2,014)
Debt securities in issue	2,920	1,192	277	4,389
Financial liabilities held for trading	-	-	870	870
Total interest bearing liabilities	6,286	(3,384)	**(780)**	2,121
Other liabilities	-	-	-	-
Total liabilities	6,286	(3,384)	**(780)**	**2,121**
Net interest margin				**26,158**
Of which loan deposit customers, securities and financial liabilities designated at fair value	42,010	(11,388)	(3,681)	26,941

(1) "Volume" refers to the average balance for the period minus the average balance for the previous period, multiplied by the average yield for such period.
(2) "Yield/rate" refers to the average yield/rate for the period minus the average yield/rate for the previous period multiplied by the average balance for such period.
(3) "Volume and yield/rate" refers to "Total net change" minus "Volume" minus "Yield/rate".
(4) "Total net change" refers to net interest margin for the period minus net interest margin for the previous period.

The following table sets forth our Group's average interest earning assets, average interest bearing liabilities and net interest income and sets forth the comparative net interest income ratio and net interest spread for the indicated periods.

	For the year ended 31 December	
	2016	**2015**
	(in € thousands, except percentages)	
Total average interest earning assets	**3,844,934**	**3,053,394**
Total average interest bearing liabilities	**3,435,239**	**2,603,887**
Net interest margin	159,205	133,048
Average yield on average interest earning assets	4.9%	5.3%
Average rate on average interest bearing liabilities	0.9%	1.1%
Net interest spread[1]	4.0%	4.2%
Net interest margin ratio[2]	4.1%	4.2%

(1) Net interest spread refers to the difference between the average yield of interest earning assets and average rate payable by us on interest bearing liabilities.
(2) Net interest margin ratio refers to the ratio between net interest income and total average assets.

Investment portfolio

As of 31 December 2016, the book value of our securities portfolio increased by 60.9% to €2,014.4 million, representing approximately 42.5%% of our total assets. As of 31 December 2015, the book value of our

securities portfolio decreased by 5.6% to €1,252.3 million, representing approximately 37.7% of our total assets.

In our banking activities, we do not otherwise hold securities issued or guaranteed by any one entity or obligor, other than the Italian government, whose carrying value represents more than 10% of our consolidated shareholders' equity determined in accordance with IFRS.

The following table provides a breakdown of our Group's securities portfolio as of the dates indicated.

	As of 31 December	
	2016	2015
	(in € millions)	
Financial assets held for trading	**244**	-
Financial derivative instruments	244	-
Financial assets at fair value	**3,401**	-
of which OICR units	3,401	-
Available for sale financial assets	**385,280**	**429,438**
Government securities	385,086	429,415
Investments	194	23
Held to maturity financial assets	**1,629,320**	**822,859**
Government securities	1,629,320	822,859
Total	**2,018,245**	**1,252,297**

The table below shows the amount and percentage represented by our government securities of our net interest margin, operating income and profit for the year ended 31 December 2016 and the year ended 31 December 2015.

	For the year ended 31 December, 2016	% off interest margin	% of operating income	% of profit	For the year ended 31 December, 2015	% off interest margin	% of operating income	% of profit
				(in € thousands)				
Interest	3,994	2.5%	2.4%	5.5%	5,848	4.4%	4.1%	8.5%
Gains/losses on the disposal/repurchase of financial assets	706	0.4%	0.4%	1.0%	872	0.6%	0.6%	1.3%
Total	**4,700**	**3.0%**	**2.9%**	**6.5%**	**6,720**	**5.1%**	**4.7%**	**9.8%**

By purchasing government securities and refinancing them through open market operations with the ECB and repos with other financial institutions, we aim to reduce the cost of funding and optimize our liquidity position, thus benefiting from the difference between the return on our investment in the government securities and the refinancing rate. We use government securities which may be classified as HTM and have a positive return in connection with credit lines granted by the banking system, with no negative effect on our liquidity risk.

As of 31 December 2016 and 31 December 2015, we refinanced our government securities portfolio for a nominal value of €0 million and €206 million, respectively, through open market operations with the ECB and €1,770.5 million and €892 million, respectively, through repos.

The securities held in our AFS portfolio are variable rate securities (CCT-Treasury Certificates), with maturity dates falling within five years, while those held in our held-to-maturity (HTM) portfolio are fixed rate securities (BOTs, BTPs and CTZs) with maturity dates related to the source of committed and unsecured funding held by us in accordance with our internal policy.

	As of 31 December 2016					
	Within 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Total at 31 December 2016
	(in € thousands)					
Available for sale (AFS)				385,085		385,085
Held to maturity (HTM)	270,537	499,925	358,844	500,014		1,629,320
Government securities	**270,537**	**499,925**	**358,844**	**885,099**	-	**2,014,405**
Of which at fixed rate	270,537	499,925	358,844	500,014		1,629,320
At variable rate	-	-	-	385,085		385,085

	As of 31 December 2015					
	Within 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Total at 31 December 2015
	(in € thousands)					
Available for sale (AFS)	-	-	-	429,415	-	429,415
Held to maturity (HTM)	51,493	56,945	167,417	547,004	-	822,859
Government securities	**51,493**	**56,945**	**167,417**	**976,419**	-	**1,252,274**
Of which at fixed rate	51,493	56,945	167,417	547,004	-	822,859
At variable rate	-	-	-	429.415	-	429.415

Bond portfolio by maturity

The following tables set forth the book value of the Group's debt securities by maturity based on residual life as of 31 December 2016 and 2015.

	As of 31 December 2016									
	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
	(in € thousands)									
On-balance sheet assets[(1)]										
Government bonds	-	-	50,124	-	222,737	506,051	363,439	872,247	-	-
Total	**-**	**-**	**50,124**	**-**	**222,737**	**506,051**	**363,439**	**872,247**	**-**	**-**

(1) Includes all on-balance sheet bonds, irrespective of their portfolio of allocation, whether trading, available-for-sale, held-to-maturity, loans, assets designated at fair value through profit and loss, or discontinued operations.

	As of 31 December 2015									
	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
	(in € thousands)									
On-balance sheet assets[(1)]										
Government bonds	-	-	11,121	-	42,334	67,509	177,186	945,442	-	-
Total	**-**	**-**	**11,121**	**-**	**42,334**	**67,509**	**177,186**	**945,442**	**-**	**-**

(1) Includes all on-balance sheet bonds, irrespective of their portfolio of allocation, whether trading, available-for-sale, held-to-maturity, loans, assets designated at fair value through profit and loss, or discontinued operations.

Loan portfolio

As of 31 December 2016, the Group's loan portfolio included loans due from banks of €144.9 million, representing approximately 3.1% of our total assets and loans to customers equal to €2,499.1 million, representing approximately 52.8% of our total assets.

As of 31 December 2015, the Group's loan portfolio included loans due from banks of €60.5 million, representing approximately 1.8% of our total assets and loans to customers equal to €1,962.0 million, representing approximately 59.1% of our total assets.

The following table presents a breakdown of our loan portfolio as of 31 December 2016 and 2015.

	As of 31 December 2016	As of 31 December 2015	Changes	
			Amount	%
	(in € thousands, except percentages)			
Loan portfolio				
Due from banks	144,871	60,523	84,348	13.6%
Due from customers	2,499,094	1,962,004	537,090	86.4%
Total	**2,643,965**	**2,022,527**	**621,438**	**100%**

Loan portfolio by contractual maturity

The following tables provide a breakdown of our loans to banks and customers by maturity based on residual life as of 31 December 2016 and 2015.

	As of 31 December 2016					
	Within 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Total
	(in € millions)					
On-balance sheet exposures(1)						
Due from banks	144,871					144,871
Due from customers	862,805	311,029	508,011	776,118	41,131	2,499,094
Total	1,007,676	311,029	508,011	776,118	41,131	2,643,965

	As of 31 December 2015					
	Within 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Total
	(in € millions)					
On-balance sheet exposures(1)						
Due from banks	60,523					60,523
Due from customers	726,969	284,291	440,339	477,283	33,122	1,962,004
Total	**787,492**	**284,291**	**440,339**	**477,283**	**33,122**	**2,022,527**

Risk elements in the loan portfolio: Loan classification

We analyze the risk elements in our loan portfolio in accordance with IFRS, GAAP, applicable Italian regulations (or other local regulations) and industry practices. See "*Risk Management—Credit risk management policies*".

Loan Classification

Starting from the first quarter of 2015, loans classification into risk classes was updated in order to reflect the changes provided in Bank of Italy (Circular No. 272 of 30 July 2008—*Matrice dei conti*) ("**Circular 272**"). The total volume of loans classified in the previous categories that made up the perimeter of non-performing loans as of 31 December 2014 (Non-Performing Loans, Watchlist Loans, Restructured Loans, and Past-due Loans) were reallocated to three new risk classes (Non-Performing Loans, "Unlikely to pay", and Past-due Loans).

For more information regarding the new loan classifications, see "*Risk Management—Credit risk management policies*".

Credit risk management policies

For a discussion of our Group's policies on credit risk, see "*Risk Management—Credit risk management policies*".

Quality of loan portfolio

The following tables set forth information about the quality of the Group's loan portfolio as of 31 December 2016 and 2015.

Overall credit exposures by risk class

Banking group	As of 31 December 2016			
	Impaired Assets		Not-Impaired Assets	
Portfolios/category	Gross	Net[1]	Gross	Net[1]
	(*in € thousands*)			
On-balance sheet exposures[3]				
Available-for-sale financial assets	-	-	385,086	385,086
Held-to-maturity financial assets	-	-	1,629,320	1,629,320
Due from banks	-	-	144,871	144,871
Due from customers	66,372	61,847	2,443,009	2,437,248
Financial assets designated at fair value	-	-	3,401	3,401
Financial assets under disposal	-	-	-	-
Total	**66,372**	**61,847**	**4,605,687**	**4,599,926**

Banking group	As of 31 December 2015			
	Impaired Assets		Not-Impaired Assets	
Portfolios/category	Gross	Net[1]	Gross	Net[1]
	(*in € thousands*)			
On-balance sheet exposures[3]				
Available-for-sale financial assets	-	-	429,415	429,415
Held-to-maturity financial assets	-	-	822,859	822,859
Due from banks	-	-	60,523	60,523
Due from customers	47,536	45,741	1,920,013	1,916,263
Financial assets designated at fair value	-	-	-	-
Financial assets under disposal	-	-	-	-
Total	**47,536**	**45,741**	**3,232,810**	**3,229,060**

(1) Net of reserves made with respect to such exposures.
(2) "Not impaired exposures" represents our performing assets.
(3) Includes all on-balance sheet bonds, irrespective of their portfolio of allocation, whether trading, available-for-sale, held-to-maturity, loans, assets designated at fair value through profit and loss, or discontinued operations.

Credit exposures by customer group and economic sector

The following tables set forth information about our on balance sheet and our off-balance sheet exposures as of 31 December 2016 and 2015 by (i) governments and other public entities, (ii) financial institutions and insurance companies, and (iii) non-financial companies and other counterparties.

	Governments			Other public entities		
	Net exposure	Individual adjustments [1]	Collective adjustments [1]	Net exposure	Individual adjustments [1]	Collective adjustments [1]
On-balance sheet exposures	(*in € millions*)					
Non-performing loans	-	-		6,131	931	
Unlikely to pay loans	-	-		3,376		
Impaired past due exposures	4,662	9		34,136	63	
Not impaired exposures	2,423,898	-	755	1,782,764		4,174
Total as of 31 December 2016	2,428,560	9	755	1,826,408	994	4,174

	Governments			Other public entities		
	Net exposure	Individual adjustments [1]	Collective adjustments [1]	Net exposure	Individual adjustments [1]	Collective adjustments [1]
Off-balance sheet exposures	(*in € millions*)					
Non-performing loans		-	-		-	-
Unlikely to pay loans		-	-		-	-
Impaired past due exposures	6	-	-	676	-	-
Not impaired exposures	1,775	-	-	34,873	-	-
Total as of 31 December 2016	1,781	-	-	35,550	-	-

	Financial institutions			Insurance companies		
	Net exposure	Individual adjustments (1)	Collective adjustments (1)	Net exposure	Individual adjustments (1)	Collective adjustments (1)
On-balance sheet exposures			*(in € millions)*			
Non-performing loans	312	296	-	-	-	-
Unlikely to pay loans	-	-	-	-	-	-
Impaired past due exposures	341	-	-	-	-	-
Not impaired exposures	117,790	-	604	-	-	-
Total as of 31 December 2016	118,444	296	604	-	-	-

	Financial institutions			Insurance companies		
	Net exposure	Individual adjustments (1)	Collective adjustments (1)	Net exposure	Individual adjustments (1)	Collective adjustments (1)
Off-balance sheet exposures			*(in € millions)*			
Non-performing loans	-	-	-	-	-	-
Unlikely to pay loans	-	-	-	-	-	-
Impaired past due exposures	-	-	-	-	-	-
Not impaired exposures	-	-	-	-	-	-
Total as of 31 December 2016	-	-	-	-	-	-

	Non-Financial companies			Other counterparties		
	Net exposure	Individual adjustments (1)	Collective adjustments (1)	Net exposure	Individual adjustments (1)	Collective adjustments (1)
On-balance sheet exposures			*(in € millions)*			
Non-performing loans	33	853	-	5,589	2,262	-
Unlikely to pay loans	-	-	-	237	101	-
Impaired past due exposures	6,497	11	-	532	-	-
Not impaired exposures	29,460	-	32	97,740	-	195
Total as of 31 December 2016	35,990	864	32	104,099	2,364	195

	Non-Financial companies			Other counterparties		
	Net exposure	Individual adjustments (1)	Collective adjustments (1)	Net exposure	Individual adjustments (1)	Collective adjustments (1)
Off-balance sheet exposures			*(in € millions)*			
Non-performing loans	-	-	-	-	-	-
Unlikely to pay loans	-	-	-	-	-	-
Impaired past due exposures	34	-	-	-	-	-
Not impaired exposures	90,622	-	-	-	-	-
Total as of 31 December 2016	90,656	-	-	-	-	-

(1) "Adjustments" refer to the reserves made with respect to such exposures.

	Governments			Other public entities		
	Net exposure	Individual adjustments (1)	Collective adjustments (1)	Net exposure	Individual adjustments (1)	Collective adjustments (1)
On-balance sheet exposures			*(in € millions)*			
Non-performing loans	**-**	**-**	**-**	1,229	451	**-**
Unlikely to pay loans	**-**	**-**	**-**	-	-	**-**
Impaired past due exposures	31	**-**	**-**	9,543	17	**-**
Not impaired exposures	1,533,844	**-**	**499**	1,584,139	**-**	**3,225**
Total as of 31 December 2015	**1,533,875**	**-**	**499**	**1,594,911**	**468**	**3,225**

	Governments			Other public entities		
	Net exposure	Individual adjustments (1)	Collective adjustments (1)	Net exposure	Individual adjustments (1)	Collective adjustments (1)
Off-balance sheet exposures			*(in € millions)*			
Non-performing loans	**-**	**-**	**-**	-	-	**-**
Unlikely to pay loans	**-**	**-**	**-**	-	-	**-**
Impaired past due exposures		**-**	**-**	-	-	**-**
Not impaired exposures	7,360	**-**	**-**	18,861	**-**	**-**
Total as of 31 December 2015	**7,360**	**-**	**-**	**18,861**	**-**	**-**

	Financial institutions			Insurance companies		
	Net exposure	Individual adjustments (1)	Collective adjustments (1)	Net exposure	Individual adjustments (1)	Collective adjustments (1)
On-balance sheet exposures			*(in € millions)*			
Non-performing loans	-	-	-	-	-	-
Unlikely to pay loans	-	-	-	-	-	-
Impaired past due exposures	-	-	-	-	-	-
Not impaired exposures	28,932	-	-	-	-	-
Total as of 31 December 2015	**28,932**	**-**	**-**	**-**	**-**	**-**

	Financial institutions			Insurance companies		
	Net exposure	Individual adjustments (1)	Collective adjustments (1)	Net exposure	Individual adjustments (1)	Collective adjustments (1)
Off-balance sheet exposures			*(in € millions)*			
Non-performing loans	-	-	-	-	-	-
Unlikely to pay loans	-	-	-	-	-	-
Impaired past due exposures	-	-	-	-	-	-
Not impaired exposures	-	-	-	-	-	-
Total as of 31 December 2015	**-**	**-**	**-**	**-**	**-**	**-**

	Non-Financial companies			Other counterparties		
	Net exposure	Individual adjustments (1)	Collective adjustments (1)	Net exposure	Individual adjustments (1)	Collective adjustments (1)
On-balance sheet exposures			*(in € millions)*			
Non-performing loans	234	850	-	1,044	418	-
Unlikely to pay loans	-	-	-	-	-	-
Impaired past due exposures	33,473	59	-	186	-	-
Not impaired exposures	6,491	-	8	15,131	-	18
Total as of 31 December 2015	**40,198**	**909**	**8**	**16,361**	**418**	**18**

	Non-Financial companies			Other counterparties		
	Net exposure	Individual adjustments (1)	Collective adjustments (1)	Net exposure	Individual adjustments (1)	Collective adjustments (1)
Off-balance sheet exposures			*(in € millions)*			
Non-performing loans	-	-	-	-	-	-
Unlikely to pay loans	-	-	-	-	-	-
Impaired past due exposures	-	-	-	-	-	-
Not impaired exposures	91,240	-	-	-	-	-
Total as of 31 December 2015	**91,240**	**-**	**-**	**-**	**-**	**-**

(1) "Adjustments" refer to the impairment provisions made with respect to such exposures.

Borrower concentrations and significant risk exposures

The Bank of Italy defines a "significant risk exposure" as any position the amount of which is equal or greater than 10% of the Own Funds of the Group. As of 31 December 2016, we had 14 significant risk exposures totaling €257.5 million (weighted value). As of 31 December 2015, we had 15 significant risk exposures totaling €264.6 million (weighted value).

Foreign country exposure

The following tables show the geographic breakdown of the Group's exposures based on the country of the borrower or ultimate guarantor of the exposure as of the indicated dates.

Credit exposures by country: Customers

The following tables show the geographic breakdown of the Group's exposures based on the country of the borrower or ultimate guarantor of the exposure as of the indicated dates.

	Italy		Other European countries		America		Asia		Other	
	Net exposure	Total adjustments[1]	Net exposure	Total adjustments[1]	Net exposure	Total adjustments[1]	Net exposure	Total adjustments[1]	Net exposure	Total adjustments[1]
					(in € millions)					
On-balance sheet exposures: customers										
Non-performing loans	7,194	2,392	4,872	1,950						
Unlikely to pay loans			3,614	101						
Impaired past due exposures	45,429	82	739							
Not impaired exposures	3,824,180	3,409	627,474	2,352						
Total as of 31 December 2016	3,876,802	5,883	636,698	4,404						

	Italy		Other European countries		America		Asia		Other	
	Net exposure	Total adjustments[1]	Net exposure	Total adjustments[1]	Net exposure	Total adjustments[1]	Net exposure	Total adjustments[1]	Net exposure	Total adjustments[1]
					(in € millions)					
On-balance sheet exposures: customers										
Non-performing loans	2,507	1,719	-	-	-	-	-	-	-	-
Unlikely to pay loans	-	-	-	-	-	-	-	-	-	-
Impaired past due exposures	43,220	76	14	-	-	-	-	-	-	-
Not impaired exposures	2,947,189	3,700	221,347	50	-	-	-	-	-	-
Total as of 31 December 2015	**2,992,916**	**5,495**	**221,361**	**50**	**-**	**-**	**-**	**-**	**-**	**-**

(1) "Adjustments" refer to the reserves made with respect to such exposures.

Credit exposures by country: Banks

	Italy		Other European countries		America		Asia		Other	
	Net exposure	Total adjustments[1]	Net exposure	Total adjustments[1]	Net exposure	Total adjustments[1]	Net exposure	Total adjustments[1]	Net exposure	Total adjustments[1]
					(in € millions)					
On-balance sheet exposures: banks										
Non-performing loans										
Unlikely to pay loans										
Impaired past due exposures										
Not impaired exposures	130,381		14,490							
Total as of 31 December 2016	130,381		14,490							

	Italy		Other European countries		America		Asia		Other	
	Net exposure	**Total adjustments[1]**	**Net exposure**	**Total adjustments[1]**	**Net exposure**	**Total adjustments[1]**	**Net exposure**	**Total adjustments[1]**	**Net exposure**	**Total adjustments[1]**
					(in € millions)					
On-balance sheet exposures: banks										
Non-performing loans	-	-	-	-	-	-	-	-	-	-
Unlikely to pay loans	-	-	-	-	-	-	-	-	-	-
Impaired past due exposures	-	-	-	-	-	-	-	-	-	-
Not impaired exposures	55,393	-	385	-	-	-	-	-	-	-
Total as of 31 December 2015	**55,393**	**-**	**385**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

(1) "Adjustments" refer to the reserves made with respect to such exposures.

Loan loss experience

Total adjustments to non-performing loans

For a more detailed description of how we assess the impairment of financial assets and intangible assets see "*Risk Management— Credit risk management policies*".

The following tables show details of the changes in total adjustments relating to non-performing loans of the Group for the indicated periods (i.e. the impairment provisions made for exposures).

	As of 31 December 2015					
	Source/ Category	**Non-performin g**	**Unlikely to pay exposures**		**Impaired past due exposures**	
	Total	**Forborne exposures**	**Total**	**Forborne exposures**	**Total**	**Forborne exposures**
			(in € thousands)			
Opening total impairments	**1,883**	**-**	**-**	**-**	**16**	**-**
of which: receivables sold but not derecognized		-	-	-		-
Increases	**143**	**-**	**-**	**-**	**77**	**-**
impairment losses	143	-	-	-	72	-
losses on sale	-	-	-	-	-	-
transfers from other impaired exposures	-	-	-	-	-	-
other increases	-	-	-	-	5	-
Decreases	**307**	**-**	**-**	**-**	**17**	**-**
impairment reversals	-	-	-	-	1	-
impairment reversals from collections	123	-	-	-	9	-
gains on sale	-	-	-	-	-	-
Derecognition	-	-	-	-	-	-
transfer to other impaired exposures	-	-	-	-	-	-
other decreases	184	-	-	-	7	-
Closing total impairments	**1,719**	**-**	**-**	**-**	**76**	**-**
of which: receivables sold but not derecognized	18	-	-	-	7	-

Credit quality

Credit quality analysis is performed with respect to loans to customers. The provision for loan losses as of 31 December 2016 was €23.9 million, an increase of €4.8 million compared to €19.1 million as of 31 December 2015. Our non-performing loan coverage ratio, representing our loan loss allowance for non-performing loans as a percentage of our total non-performing loans, decreased to 59.8% as of 31 December 2016, compared to 85.9% as of 31 December 2015.

The Group's acquisition of Magellan has predicated an increase in net non-performing loans of €4,872 thousand, as of 31 December 2016.

The following tables show a breakdown of the credit quality of our Group's loans to customers as of 31 December 2016 and 31 December 2015.

	As of 31 December						
	2016			**2015**			
	Gross exposure	**Total adjustments**	**Net exposure**	**Gross exposure**	**Total adjustments**	**Net exposure**	**Changes net exposure**
				(in € millions)			
Non-performing loans	30.0	17.9	12.1	17.8	15.3	2.5	9.6
Unlikely to pay	3.7	0.1	3.6	-	-	-	3.6
Past due loans	46.3	0.1	46.2	43.3	0.1	43.2	3.0
Non-performing loans	80.0	18.1	61.8	**61.1**	**15.4**	**45.7**	16.1
of which forborne	-	-	-	-	-	-	-
Performing loans	2,443	5.8	2,437.2	1,920	3.7	1,916.3	520.9
Loans to customers	2,523.0	23.9	2,499.1	**1,981.1**	**19.1**	**1,962**	537.1

Credit quality ratios

The following tables show the non-recourse receivables purchased as of 31 December 2016 and 2015, with an indication of impairment losses, divided into "Performing Exposures" and "Impaired Exposures".

	As of 31 December 2016					As of 31 December 2015				
Non-recourse receivables purchased	**Gross amount**	**Impairment losses**	**% of impairment on gross amount**	**Net amount**	**% impairment on total**	**Gross amount**	**Impairment losses**	**% of impairment on gross amount**	**Net amount**	**% impairment on total**
Performing exposures	2,049,847	(4,056)	(0.2%)	2,045,791	97.3%	1,884,288	(3,750)	(0.2%)	1,880,538	97.6%
Impaired exposures purchased impaired	971	(479)	(49.3%)	492	0.0%	812	(69)	(8.5%)	743	0.0%
Impaired exposures purchased performing	58,084	(2,489)	(4.3%)	55,595	2.6%	46,210	(1,446)	(3.1%)	44,764	2.3%
Total	**2,108,902**	**(7,024)**	**(0.3%)**	**2,101,878**	**100.0%**	**1,931,310**	**(5,265)**	**(0.3%)**	**1,926,045**	**100.0%**

The tables below provide a more detailed breakdown of the Group's impaired assets (including Magellan), as of 31 December 2016 and 2015.

	As of 31 December 2016						As of 31 December 2015					
	Gross amount	**Impairment losses**	**Net amount**	**% on Gross total loans**	**Coverage ratio % (1)**	**% on Net total loans**	**Gross amount**	**Impairment losses**	**Net amount**	**% on Gross total loans**	**Coverage ratio % (1)**	**% on Net total loans**
						(in thousands of Euro)						
Impaired assets												
Non-performing exposure performing when purchased[4]	29,032	17,459	11,573	1.2%	60.1%	0.5%	17,010	15,246	1,764	0.9%	89.6%	0.1%
Non-performing exposure non-performing when purchased[4]	971	479	492	0.0%	49.3%	0.0%	812	69	743	0.0%	8.5%	0.0%
Total Non-performing exposure	30,003	17,938	12,065	1.2%	59.8%	0.5%	17,822	15,315	2,507	0.9%	85.9%	0.1%
Doubtful loans[3]	3,715	101	3,614	0.1%	2.7%	0.1%	-	-	-	0.0%	0.0%	0.0%
Past due exposure[2]	46,250	82	46,168	1.8%	0.2%	1.8%	43,310	76	43,234	2.2%	0.2%	2.2%
Impaired loans	**79,968**	**18,121**	**61,847**	**3.2%**	**22.7%**	**2.5%**	**61,132**	**15,391**	**45,741**	**3.1%**	**25.2%**	**2.3%**
Performing exposures	**2,443,009**	**5,762**	**2,437,247**	**96.8%**	**0.2%**	**97.5%**	**1,920,013**	**3,750**	**1,916,263**	**96.9%**	**0.2%**	**97.7%**
Of which: performing expired exposures	**398,944**	**740**	**398,204**	**15.8%**	**0.2%**	**15.9%**	**387,769**	**1,550**	**386,219**	**19.6%**	**0.4%**	**19.7%**
Total	**2,522,977**	**23,883**	**2,499,094**	**100.0%**	**0.9%**	**100.0%**	**1,981,145**	**19,141**	**1,962,004**	**100.0%**	**1.0%**	**100.0%**

(1) The coverage ratio % is calculated from the ratio between the impairment losses and the gross amount
(2) The past due exposures do not include exposures that had already expired when they were purchased
(3) Doubtful loans only refer to loans from Magellan towards principally public counterparties.
(4) The non-performing exposures performing when purchased refer to the exposures to debtors who, at the time of the purchase, did not show any indications of non-performance. The non-performing exposures non-performing when purchased refer specifically to exposures to municipalities that were in financial difficulty (i.e. non-performing) at the time the Group purchased them.

The net value of non-performing loans increased from €45,741 thousand as of 31 December 2015 to €61,847 thousand as of 31 December 2016. In percentage terms, the incidence of non-performing loans out of the total loan value as of 31 December 2015 and 2016 was equal to 2.3% and 2.5% respectively.

Group's net exposure has registered an increase in absolute value, primarily as a result of the increase in non-performing loans, going from €2,507 thousand (€17,822 thousand gross amount) as of 31 December 2015 to €12,065 thousand (€30,003 thousand gross amount) as of 31 December 2016. The increase in exposures as of 31 December 2016 in absolute terms is primarily due to the increase in loans to local authorities. In percentage terms, the exposure incidence on the total loan amount during the period in question is substantially stable at 0.5% and 0.1% for 31 December 2016 and 2015 respectively.

The non-performing exposures both gross and net are almost entirely due from the Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a creditors' arrangement. During the years 2015-2016, around €13.6 million has been liquidated in the first, second and third instalments of the aforementioned creditors' arrangement. As of 31 December 2016 and 2015, late payment interests accounted for €13.6 million and €13.6 million respectively of the gross non-performing exposures, and have been completely written off. As of 31 December 2016 and 2015, the amount of the gross and past due exposures owed by a government-owned corporation belonging to the Italian national healthcare system accounted for €5.5 million and €32.6 million respectively, equal to 12% and 75.3% of the gross past due exposures as of that date.

The net value of "Unlikely to pay" assets increased from €0 as of 31 December 2015 to €3.6 million as of 31 December 2016 of which €3.4 million related to public debtors. The increase as of 31 December 2016 is entirely attributable to Magellan's exposure.

The coverage for non-performing loans as a percentage of the total loan amount is substantially similar during the same period. With regard to the percentage of coverage ratio of non-performing loans, there is an overall decrease during the period, going from 85.9% as of 31 December 2015 and 59.8% as of 31 December 2016. This trend is primarily attributable to the Group's increased operations in purchasing receivables from town councils, provinces (and cities) and mountain communities. When these receivables become exposures, there is not any kind of deferment or depreciation procedure as they wait for the instability to pass in order to recoup 100% of the Group's receivables.

The same data for the year ended on 31 December 2016 (relating to the Group's excluding Magellan), are recorded in the following chart.

	As of 31 December 2016					
	Gross amount	**Impairment losses**	**Net amount**	**% on Gross total loans**	**Coverage ratio %**	**% on Net total loans**
			(in thousands of Euro)			
Impaired assets						
Non-performing exposure performing when purchased	22,210	15,509	6,701	0.9%	69.8%	0.3%
Non-performing exposure non-performing when purchased	971	479	492	0.0%	49.3%	0.0%
Total non-performing exposure	**23,181**	**15,988**	**7,193**	**0.9%**	**69.0%**	**0.3%**
Doubtful loans						
Past due exposure	45,511	82	45,429	1.8%	0.2%	1.8%
Impaired loans	**68.692**	**16.070**	**52.622**	**2,7%**	**23,4%**	**2,1%**
Performing exposures	**2.003.688**	**3.471**	**2.000.217**	**79,4%**	**0,2%**	**80,0%**
Total	**2.072.380**	**19.541**	**2.052.839**	**82,1%**	**0,9%**	**82,1%**

The following table shows a breakdown of the Group's receivables toward customers, ordered for geographical area and type of creditor, as of 31 December 2016 and 2015.

	As of 31 December	
	2016	**2015**
Due from customers		
Italy		
National Health Service	860,253	940,902
Public Entities	896,974	714,356
Other	104,805	85,476
Spain	**-**	**-**
National Health Service	119,639	151,647
Public Entities	35,013	40,310
Other	25	16
Portugal	**-**	**-**
National Health Service	35,229	29,297
Group Total, excluding Magellan	**2,051,938**	**1,962,004**
Poland	358,811	**-**
Slovakia	84,148	**-**
Czech Republic	4,197	**-**
Total Magellan Group	**447,155**	**-**
Group Total, including Magellan	**2,499,094**	**1,962,004**

The following tables present a breakdown of the impairment losses of the Group as of 31 December 2016 and 2015. During the indicated periods of time, the cost of the Group's credit risk appears to be essentially consistent and was equal to 0.09% and 0.06% as of, respectively, 31 December 2016 and 2015. The ratio between net non-performing loans and net shareholders' equity (including net profit) of the Group is also essentially consistent and was equal to 3.62% and 0.76% as of, respectively, 31 December 2016 and 2015.

	As of 31 December 2016					**As of 31 December 2015**				
	Gross amount	**Impairment losses**	**% of impairment on gross amount**	**Net amount**	**% on non-recourse receivables purchased**	**Gross amount**	**Impairment losses**	**% of impairment on gross amount**	**Net amount**	**% on non-recourse receivables purchased**
					(in € thousands)					
Impaired assets										
Past due exposures										
Past due exposures with account debtors	45,716	(82)	(0.2%)	45,634	2.2%	43,310	(76)	(0.2%)	43,234	2.2%
Past due exposures with assignors	533		0-0%	533	0.0%					
Non performing										
Past due exposures with assignors	3,589	(1,220)	(34.0%)	2,369	0.1%	514	(281)	(54.7%)	233	0.0%
Past due exposures with account debtors	12,818	(3,122)	(24.4%)	9,696	0.5%	3,712	(1,438)	(38.7%)	2,274	0.1%
Receivables for interest on late payments	13,596	(13,596)	(100.0%)	-	0.0%	13,596	(13,596)	(100.0%)	-	0.0%
Doubtful										
Past due exposures with assignors	2,837	(77)	(2.7%)	2,760	0.1%					

	As of 31 December 2016					As of 31 December 2015				
	Gross amount	**Impairment losses**	**% of impairment on gross amount**	**Net amount**	**% on non-recourse receivables purchased**	**Gross amount**	**Impairment losses**	**% of impairment on gross amount**	**Net amount**	**% on non-recourse receivables purchased**
					(in € thousands)					
Past due exposures with account debtors	879	(24)	(2.7%)	855	0.0%	-			-	0.0%
Total	**79,968**	**(18,121)**	**(22.7%)**	**61,847**	**2.9%**	**61,132**	**(15,391)**	**(25.2%)**	**45,741**	**2.4%**

Concerning coverage ratios, the coverage percentages of impaired receivables and of the total number of receivables has been mostly consistent in the indicated time frame. In particular, the coverage percentage of impaired receivables of the Group is generally lower that those showing from system data, mainly due to the fact that the Group's counterparties are almost exclusively public entities or publicly owned joint stock companies and, as such, are characterized by a lower risk of non-performance than retail and corporate counterparties. As of 31 December 2016 the purchase of receivables held against public authorities consists in 99% of the total net amount of impaired receivables originated by the Non-Recourse Factoring business in relation to the Traditional Activities. The table below shows our credit quality indicators and the average system data as of 31 December 2016 and 2015.

	As of 31 December			
	2016		2015	
	Group	**Average system data (less significant banks)** (1)	**Group**	**Average system data (small banks)** (1)
Gross impaired loans/Gross loans	3.2%	n.a.	3.1%	18.7%
Impaired loans coverage ratio	22.7%	n.a.	25.2%	40.8%
Gross non-performing loans/Gross loans	1.2%	n.a.	0.9%	10.5%
Non-performing loans coverage ratio	59.8%	n.a.	85.9%	55.3%
Gross probable defaults/Gross loans	0.1%	n.a.	0.0%	8.3% (2)
Probable defaults coverage ratio	-	n.a.	-	22.5%
Gross expired exposures/Gross loans	1.8%	n.a.	2.2%	n.a.(3)
Expired exposures coverage ratio	0.2%	n.a.	0.2%	n.a.(3)

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(1) Source: Bank of Italy — "Financial Stability Report No. 1 -2016"; "Financial Stability Report No.1—2015"; respectively for the data as of 31 December 2016 and 2015. The figures are gross of the corresponding write-downs. The percentage of coverage is given by the amount of value adjustments in relation to the corresponding gross exposure. The category "minor banks" includes banks belonging to groups or independent with total assets of less than €3.6 billion. The category "small banks" includes banks belonging to groups or independent with total assets between €3.6 billion and €21.5 billion. The category "less significant banks", introduced with the "Financial Stability Report No.2—2016, includes the banks supervised by the Bank of Italy in close cooperation with the ECB.

(2) As of 31 December 2015, the data published in the Bank of Italy "Financial Stability Report No.1—2016", concerning likely non-performances, relates to the aggregate "other than impaired loans", which includes both the aggregate unlikely to pay and overdue and/or non-performance exposures.

(3) System data relating to past due loans as of 31 December 2015 are not available, since the "Financial Stability Report No.1—2016" of the Bank of Italy relayed the system data only in relation to "impairments" and "impairments other than non—performances".

(4) The data refers to the previous definition and classification of non-performing loans which included the category of "Substandard" which was removed in 2015. Therefore, the "probable defaults" should read as "doubtful or restructured", in the above classification of non-performing loans, while the item "past due loans" includes the "overdue" item as set out in the previous classification. The system data relating to the relationship between "gross probable failures" and "gross receivables" is therefore equal to the sum of "problem loans" and "restructured" in the report, while the percentage of coverage of likely defaults is equal to the average of the coverage rates of "problem loans" and "restructured" in the report.

Deposits

Customer deposits, securities and interbank borrowings

The principal components of our funding are customer deposits (current accounts or time deposits and savings accounts), repurchase agreements, certificates of deposit, bonds, subordinated debt, and interbank funding. Domestic current and savings accounts are primarily interest bearing accounts.

Funding by type

The following tables present a breakdown of amounts due to banks, due to customers and securities issued as of 31 December 2016 and 2015.

	For the year ended 31 December					
	2016		2015		Changes	
	Amount	**% break-down**	**Amount**	**% break-down**	**Amount**	**%**
	(in € millions)					
Pool/club deal[1]	-	0,0%	109,810	4.0%	(109,810)	(100.0%)
Committed lines[1]	634,807	15,2%	372,266	13.6%	262,541	70.5%
Central banks	-	0,0%	206,000	7.5%	(206,000)	(100.0%)
Other debt	-	0,0%	5	0.0%	(5)	(100.0%)
Due to banks	**634,807**	**15,2%**	**688,081**	**25.1%**	(53,274)	(7.7%)
Securitization	85,000	2.0%	150,000	5.5%	(65,000)	(43.3%)
Bonds [2]	545,334	13.0%	300,000	10.9%	245,334	81.8%
Debt securities in issue	**630,334**	**15.1%**	**450,000**	**16.4%**	180,334	40.1%
Repurchase agreements [3]	1,809,044	43.2%	920,471	33.6%	888,573	96.5%
Net deposits from Conto Facto[3]	822,438	19.7%	416,652	15.2%	405,786	97.4%
Other financing [3]	288,653	6,9%	267,014	9.7%	21,639	8.1%
Total Funding	**4,185,276**	**100.0%**	**2,742,218**	**100.0%**	1,443,058	52.6%

(1) The amounts as of 31 December 2015 include a share of upfront fees paid in advance. As of 31 December 2016 bilateral lines include, for €80,508 thousand, a dedicated loan signed by the Issuer and UniCredit as part of the acquisition of Magellan.
(2) Nominal value.
(3) These liabilities are classified in the balance sheet item "Due to customers".

The following chart shows the details of the amount of financial resources (excluding the Group's Own Funds) agreed and utilized by the Group as of 31 December 2016 and 2015.

	As of 31 December 2016		As of 31 December 2015	
	Utilized	**Agreed (at nominal value)**	**Utilized**	**Agreed (at nominal value)**
Funding Sources				
Syndicated loans	-	-	109,810	110,000
Bilateral loans[1]	634,807	1,398,370	372,266	874,000
Central banks	-	-	206,000	206,000
Other debts	-	-	5	-
Due to banks	**634,807**	**1,398,370**	**688,081**	**1,190,000**
Securitization transactions	85,000	85,000	150,000	150,000
Bond issues[2]	545,334	545,334	300,000	300,000
Securities issued	**630,334**	**630,334**	**450,000**	**450,000**
Repo transactions[3]	1,809,044	1,809,044	920,471	920,471
Online term deposit account[3]	822,438	822,438	416,652	416,652
Other financing[3]	288,653	386,685	267,014	330,000
Total	4,185,276	5,046,871	**2,742,218**	**3,307,123**

(1) As of 31 December 2016 bilateral lines include, for €80,508 thousand, a dedicated loan signed by the Issuer and Unicredit as part of the acquisition of Magellan.
(2) Nominal value.
(3) Such debts are classified under "Due to customers" in our balance sheet.

The following table provides an analysis of our funding sources, agreed and utilized, ordered by type (except for the Group's Own Funds) as of 31 December 2016, based on the inclusion or exclusion of Magellan from the Group.

	As 31 December 2016				Group Total (as of 31 December 2016)	
	Group excluding Magellan		Group including Magellan			
	Utilized	Agreed (at nominal value	Utilized	Agreed (at nominal value	Utilized	Agreed (at nominal value
			(in € thousands)			
Funding Sources						
Syndicated loans	-	-	-	-	-	-
Bilateral loans[(1)]	603,346	1,331,008	31,461	67,362	634,807	1,398,370
Central banks	-	-	-	-	-	-
Other debts	-	-	-	-	-	-
Due to banks	**603,346**	**1,331,008**	**31,461**	**67,362**	**634,807**	**1,398,370**
Securitization transactions	85,000	85,000	-	-	85,000	85,000
Bond issues[(2)]	450,000	450,000	95,334	95,334	545,334	545,334
Securities issued	**535,000**	**535,000**	**95,334**	**95,334**	**630,334**	**630,334**
Repo transactions[(3)]	1,809,044	1,809,044	-	-	1,809,044	1,809,044
Online term deposit accounts[(3)]	822,438	822,438	-	-	822,438	822,438
Other financing[(3)]	231,790	330,000	56,863	56,685	288,653	386,685
Total	**4,001,618**	**4,827,490**	**183,658**	**219,381**	**4,185,279**	**5,046,871**

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(1) As of 31 December 2016 bilateral lines include, for €80,508 thousand, a dedicated loan signed by the Issuer and Unicredit as part of the acquisition of Magellan.
(2) Nominal value.
(3) Such debts are classified under "*Due to customers*" in our balance sheet.

The following table provides an analysis of our funding sources, utilized, ordered by currency (except for the Group's Own Funds) as of 31 December 2016, including Magellan.

	As of 31 December 2016		
	€	PLN	Total
		(in € thousands)	
Funding Sources			
Bilateral loans[(1)]	522,838	111,969	634,807
Other debts	-	-	-
Due to banks	**522,838**	**111,969**	**634,807**
Securitization transactions	85,000	-	85,000
Bond issues[(2)]	479,125	66,209	545,334
Securities issued	**564,125**	**66,209**	**630,334**
4Repo transactions[(3)]	1,809,044	-	1,809,044
Online term deposit accounts[(3)]	822,438	-	822,438
Other financing[(3)]	231,790	56,863	288,653
Total	3,950,235	235,041	4,185,276

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(1) As of 31 December 2016 bilateral lines include, for €80,508 thousand, a dedicated loan signed by the Issuer and Unicredit as part of the acquisition of Magellan.
(2) Nominal value.
(3) Such debts are classified under "*Due to customers*" in our balance sheet.

Funding: average balances and maturities

The following tables present average balances of our Group's total funding as of 31 December 2016 and 2015.

	Average balance for the year ended 31 December[(1)]	
	2016	2015
Total funding (average balance) excluding central banks and repurchase agreements	1,909,936	1,382,469
Financial expenses related to total funding excluding central banks and repurchase agreements	36,353	29,928

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(1) Determined as the arithmetic average of quarterly financials.

In the second half of 2016 the cost of funding excluding the Group's central bank funding and repo transactions (and excluding Magellan) is equal to 1.8% (including the costs relating to the derivative

agreements that are in place). In the same period, the cost of funding, excluding central bank funding and repo transactions (but including Magellan for six months) is equal to 2.1% (the average of financial resources, excluding central banks and repo transactions for the first half of 2016 and including Magellan for six months, is equal to €2,141 million). In 2015, the cost of funding excluding central bank funding and repo transactions and including Magellan for twelve months, is equal to 2.6% (the average of the financial resources excluding central banks and repo transactions and including Magellan for 12 months, is equal to €1,649 million).

The Magellan Group's cost of funding passed from 4.8% in the last quarter of 2015 to 4.6% in the second quarter of 2016 and to 4.5% in the last quarter of 2016. From the second half of 2016, the Group has started to pursue a strategy for the optimization of Magellan's financial resources, aimed at aligning Magellan's cost of funding to that of the Issuer.

As of 31 December 2016, Magellan's bond issues, a part denominated in Euro and the other in PLN, have a nominal value equal to €95,337 thousand and they refer to the issuance placed via mBank both to institutional investors and retail clients. These bond issues do not have a rating, they are unsecured and they will be listed on the Polish stock exchange for bonds called "*Catalyst*" once the ongoing listing process will be fully completed. In agreement with the amortization plan which is currently in place, the residual owed amount relating to the bond issues is equal to PLN 162 million as of the end of the first half of 2017, to PLN 107 million at the end of 2017, to PLN 103 million at the end of 2018 and PLN 49 million at the end of 2019. Assuming a Wibor six-month interest rate at 1.80% and a Euro/Zloty exchange rate equal to 4.4102, the average cost of the bond issuance relating to Magellan is equal to 4.79% as of 31 December 2016.

The following table shows the breakdown by maturity of our funding operations as of 31 December 2016 and 31 December 2015.

	As of 31 December 2016	**As of 31 December 2015**
Maturity		
On demand	31,544	25,201
From day 1 to three months	1,678,834	1,250,461
From 3 months to 6 months	857,125	301,104
From 6 months to 12 months	890,430	373,306
From 1 year to 5 years	727,343	792,101
Over 5 years	-	45
Total	4,185,276	**2,742,218**

Funding by maturity

As a financial institution, our Group's sources of funding are the principal components of its obligations and commitments to make future payments under contracts. The following table sets forth the principal components of the Group's sources of funding by maturity as of 31 December 2016 and 2015 (in Euro and in other currencies).

	As of 31 December 2016 (Euro)									
	On demand	**Between 1 and 7 days**	**Between 7 and 15 days**	**Between 15 days and 1 month**	**Between 1 and 3 months**	**Between 3 and 6 months**	**Between 6 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Unspecified maturity**
	(in € thousands)									
On-balance sheet assets	**692,225**	**9,955**	**56,079**	**22,650**	**252,928**	**685,466**	**679,581**	**1,593,286**	**55,899**	**-**
Government securities			50,124		222,737	506,051	363,439	872,247		-
Other securities	-	-	-	-	-	-	-	-	-	-
O.I.C.R. units	-	-	-	-	-	-	-	-	-	-
Loans	692,225	9,955	5,954	22,650	30,190	179,415	316,142	721,039	55,899	-
Of which:										
-Banks	*131,455*	*5,174*	-	-	-	-	-	-	-	-
-customers	*560,769*	*4,781*	*5,954*	*22,650*	*30,190*	*179,415*	*316,142*	*721,039*	*55,899*	-

	As of 31 December 2016 (Euro)									
	On demand	**Between 1 and 7 days**	**Between 7 and 15 days**	**Between 15 days and 1 month**	**Between 1 and 3 months**	**Between 3 and 6 months**	**Between 6 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Unspecified maturity**
					(in € thousands)					
On-balance sheet exposures	**194,013**	**353,675**	**325,232**	**702,496**	**349,015**	**823,287**	**777,762**	**566,193**	**-**	**4.636**
Deposits and current accounts	34,647	25,073	19,638	38,451	211,084	231,795	494,228	292,835	-	-
Of which:										
-Banks..................................	*107*	*5,000*	-	-	*67,000*	*67,500*	*250,000*	*133,231*	-	-
-customers	*34,540*	*20,073*	*19,638*	*38,451*	*144,084*	*164,295*	*244,228*	*159,604*	-	-
Debt securities	-	-	-	-	9,725	303,339	13,300	156,500	-	-
Other exposures	159,366	328,602	305,594	664,045	128,206	288,153	270,233	116,858	-	4.636

	As of 31 December 2016 (Euro)									
	On demand	**Between 1 and 7 days**	**Between 7 and 15 days**	**Between 15 days and 1 month**	**Between 1 and 3 months**	**Between 3 and 6 months**	**Between 6 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Unspecified maturity**
					(in € thousands)					
Off-balance sheet exposures			**7.000**	**18.388**	**72.480**	**115**	**14.273**	**6.685**		
Financial derivatives with exchange of capital			7.000	18.388	62.024					
-long positions			*7.000*	*18.388*	*62.024*					
- short positions										
Financial derivatives without exchange of capital					10.456	115	14.273	6.685		
-long positions					*10.456*	*115*	*14.273*	*6.685*		
- short positions										

	As of 31 December 2016 (other currencies)									
	On demand	**Between 1 and 7 days**	**Between 7 and 15 days**	**Between 15 days and 1 month**	**Between 1 and 3 months**	**Between 3 and 6 months**	**Between 6 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Unspecified maturity**
					(in € thousands)					
On-balance sheet assets	**82,520**	**601**	**1,901**	**287**	**29,814**	**11,940**	**62,126**	**138,784**	**87,121**	**18,892**
Government securities	-	-	-	-	-	-	-	-	-	-
Other securities	-	-	-	-	-	-	-	-	-	-
O.I.C.R. units	-	-	-	-	-	-	-	-	-	-
Loans	82,520	601	1,901	287	29,814	11,940	62,126	138,784	87,121	18,892
Of which:										
-Banks..................................	*55,264*	-	-	-	-	-	-	-	-	-
-customers	*27,256*	*601*	*1,901*	*287*	*29,814*	*11,940*	*62,126*	*138,784*	*87,121*	*18,892*

	As of 31 December 2016 (other currencies)									
	On demand	**Between 1 and 7 days**	**Between 7 and 15 days**	**Between 15 days and 1 month**	**Between 1 and 3 months**	**Between 3 and 6 months**	**Between 6 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Unspecified maturity**
					(in € thousands)					
On-balance sheet exposures	**0**	**151**	**0**	**4,660**	**88,709**	**41,451**	**25,415**	**162,223**	**1,843**	**20,735**
Deposits and current accounts	0	151	0	2,059	6,720	8,613	14,245	82,549	0	1,843
Of which:										-
-Banks..................................	-	*151*	-	*2,059*	*4,118*	*8,613*	*14,245*	*82,549*	-	-
-customers	-	-	-	-	*2,601*	-	-	-	-	*1,843*
Debt securities	-	-	-	-	-	27,152	11,170	28,497	-	-
Other exposures	0	0	0	2,601	81,989	5,686	0	51,176	1,843	18,892

	As of 31 December 2016 (other currencies)									
	On demand	**Between 1 and 7 days**	**Between 7 and 15 days**	**Between 15 days and 1 month**	**Between 1 and 3 months**	**Between 3 and 6 months**	**Between 6 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Unspecified maturity**
					(in € thousands)					
Off-balance sheet exposures	**0**	**0**	**7,000**	**18,388**	**72,480**	**115**	**14,656**	**6,685**	**0**	**0**
Financial derivatives with exchange of capital	0	0	7,000	18,388	62,024	0	0	0	0	-
-long positions	-	-	-		-	-	-	-	-	-
- short positions	-	-	7,000	18,388	62,024	-	-	-	-	-
Financial derivatives without exchange of capital	0	0	0	0	10,456	115	14,656	6,685	0	0
-long positions	-	-	-	-	-	-	253	-	-	-
- short positions	-	-	-	-	10,456	115	14,403	6,685	-	-

	As of 31 December 2015									
	On demand	**Between 1 and 7 days**	**Between 7 and 15 days**	**Between 15 days and 1 month**	**Between 1 and 3 months**	**Between 3 and 6 months**	**Between 6 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Unspecified maturity**
					(in € thousands)					
On-balance sheet assets	**572,886**	**11,622**	**48,463**	**23,432**	**177,037**	**353,056**	**622,900**	**1,437,286**	**38,646**	**-**
Government securities	-	-	11,121	-	42,334	67,509	177,186	945,442	-	-
Other securities	-	-	-	-	-	-	-	-	-	-
O.I.C.R. units	-	-	-	-	-	-	-	-	-	-
Loans	572,886	11,622	37,342	23,432	134,703	285,547	445,714	491,844	38,646	-
Of which:										
-Banks	*49,989*	*5,788*	-	-	-	-	-	-	-	-
-customers	*522,897*	*5,834*	*37,342*	*23,432*	*134,703*	*285,547*	*445,714*	*491,844*	*38,646*	-

	As of 31 December 2015									
	On demand	**Between 1 and 7 days**	**Between 7 and 15 days**	**Between 15 days and 1 month**	**Between 1 and 3 months**	**Between 3 and 6 months**	**Between 6 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Unspecified maturity**
					(in € thousands)					
On-balance sheet exposures	**145,219**	**366,365**	**278,717**	**525,855**	**79,674**	**309,626**	**371,029**	**792,092**	**45**	-
Deposits and current accounts	22,580	23,447	7,006	14,013	79,674	189,990	225,475	336,487	45	
Of which:										
-Banks	-	*5,000*	-	-	*25,006*	*149,811*	*64,969*	*237,291*	-	-
-customers	*22,580*	*18,447*	*7,006*	*14,013*	*54,668*	*40,179*	*160,506*	*99,196*	*45*	
Debt securities	-	-	-	-	-	8,227	-	300,000	-	-
Not impaired exposures	122,639	342,918	271,711	511,842	-	111,409	145,554	155,605	-	-

	As of 31 December 2015									
	On demand	**Between 1 and 7 days**	**Between 7 and 15 days**	**Between 15 days and 1 month**	**Between 1 and 3 months**	**Between 3 and 6 months**	**Between 6 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Unspecified maturity**
					(in € thousands)					
Off-balance sheet exposures	-	-	-	-	-	-	-	-	-	-
Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
-long positions	-	-	-	-	-		-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

As of 31 December 2016 and 2015 the on-balance sheet assets were mainly attributable to medium and long-term uses. The medium and long-term exposures include the collection made through repos and liabilities towards the ECB. This collection is entirely carried out in relation to the Italian government securities in portfolio and does not imply, in our view, any liquidity risk, considering that these transactions may, if necessary, be spread until the expiry of the asset that has been given as guarantee in relation to the condition of full allotment granted by the ECB for the open market operations.

We pursue the structuring of a funding policy aimed at reaching an adequate level of financial flexibility which supports our business activity and the efficient use of the temporary surplus of liquidity, in order to lessen the cost of funding of the asset and liabilities analysis.

We monitor the expected performance of prospective income and expenditures in order to create and update a maturity ladder (or gap analysis) which is functional to the activation and management of our medium-long term funding operations. The medium-long term gaps are listed and monitored on the basis of the perspective maturity of assets and the contractual expiry dates of the financing sources.

SUPERVISION AND REGULATION

A summary of the significant regulatory matters affecting our activities is set out below. The summary is not intended to provide a comprehensive description of all such regulatory matters and should not be considered exhaustive.

Italy

Overview of Regulations Applicable to Italian Banks

The main national provisions governing the conduct of banking activity in Italy are contained in Legislative Decree No. 385 of 1 September 1993, as amended (*Testo Unico Bancario* or the "**Consolidated Banking Act**").

The Consolidated Banking Act defines the role of supervisory authorities in Italy and contains provisions on the definition of banking activities, the authorization required for the performance of banking activities, the acquisition of relevant shareholdings in Italian banks, the scope of banking supervision and powers of supervisory authorities, the regime applying to foreign banks intending to operate in Italy, special insolvency and administration procedures for banks, "special" credit transactions, transparency obligations applying to the provision of banking and financial services and activities, supervision of banking groups and other types of financial institutions (including, *inter alia*, electronic money and payment institutions as well as financial intermediaries specialized in financing activities which are enrolled in the register kept by the Bank of Italy pursuant to section 106 of the Consolidated Banking Act). Additional provisions have been introduced in the Consolidated Banking Act through Legislative Decree No. 181 of 16 November 2015 for the purpose of implementing Directive 2014/59/EU (the "**BRRD**").

In addition to the Consolidated Banking Act, the most relevant provisions governing the performance of financial services by Italian banks are those set forth in (i) Consolidated Financial Act, which defines, *inter alia*, the rules governing the provision of investment services and activities and the regime applying to regulated markets and Italian listed companies, (ii) the Legislative Decree No. 11 of 27 January 2010 (the "**PSD Decree**"), implementing the "Payment Services Directive" No. 2007/64/EC, (iii) the Legislative Decree No. 231 of 21 November 2007, as amended and supplemented, on the prevention of anti-money laundering and terrorism financing (the "**AML Decree**"), implementing Directives No. 2005/60/EC and No. 2006/70/EC, (iv) the Law No. 108 of 7 March 1996, as amended and supplemented (the "**Usury Law**"), and (v) the Legislative Decree No. 209 of 7 September 2005 (the "**Code of Private Insurance**"), which govern the performance of insurance, reinsurance and insurance mediation services (including those performed by banks). Additional rules are then included in other decrees aimed at implementing EU legislation on banking matters, as better detailed below.

The provisions of the Consolidated Banking Act, the Consolidated Financial Act, the PSD Decree, the Usury Law and the Code of Private Insurance are further supplemented by the regulations issued by Italian supervisory authorities (on which see also below), which include, *inter alia*, (i) decrees issued by the Minister of Economy and Finance (*Ministero dell'Economia e delle Finanze* or "**MEF**"), (ii) resolutions adopted the Interministerial Committee for Credit and Savings (*Comitato Interministeriale per il Credito e il Risparmio* or the "**CICR**"), (iii) regulations adopted by the Bank of Italy, i.e. Italy's central bank and a part of the European System of Central Banks, (iv) resolutions and regulations adopted by CONSOB (i.e. the Italian Securities Regulator), and (v) regulations issued by IVASS (i.e. the Italian Insurance Regulator).

In particular, the main CICR resolutions concern, *inter alia*, (i) relevant shareholdings in banks, financial institutions, electronic money and payment institutions, (ii) the shareholdings that may be held by banks and banking groups, (iii) rules on related party transactions, and (iv) rules on transparency of banking and financial services and products. The provisions included in the CICR resolutions are further implemented and detailed in the regulations issued of the Bank of Italy.

In this respect, the most relevant regulations of the Bank of Italy applying to Italian banks include, *inter alia*, (i) Circular No. 285/2013, setting out the supervisory provisions for banks (*Disposizioni di Vigilanza per le Banche*) which is mostly aimed at implementing the CRD IV / CRR package and contains certain additional rules that are not harmonized at the EU level, (ii) Circular No. 263/2006 which has been largely replaced and partially recast in Circular No. 285/2013 but still contains some provisions applicable to Italian banks (e.g.

rules on related party transactions), and (iii) Circular No. 229/1999, which has also been largely replaced by and partially recast in Circular No. 285/2013.

Furthermore, it is expected that pending completion of the implementation process of new EU legislation, future second level rules will be adopted such as in relation to the full implementation of the BRRD.

Italian regulatory and supervisory authorities

Under the Italian regulatory framework the following Italian authorities are in charge of regulation and supervision of Italian banks:

- the MEF, who is entrusted under the Consolidated Banking Act with the power to: (i) determine the eligibility requirements applying to shareholders of (and prospective purchasers of relevant shareholdings in) Italian banks, (ii) determine the eligibility requirements for (current or prospective) members of supervisory, management and control bodies and general managers of Italian banks, and (iii) upon proposal of the Bank of Italy, adopt certain resolution measures, including the imposition of the extraordinary management (*amministrazione straordinaria*) or compulsory liquidation (*liquidazione coatta amministrativa*);
- the CICR, which is composed of the MEF and other ministers responsible for economic matters, and has wide-ranging policy making and guidance powers and responsibilities;
- the Bank of Italy, which is the authority having the broadest supervisory powers in relation to Italian banks and operating as national resolution authority under the Italian provisions implementing the BRRD;
- CONSOB, as far as the rules relating to the provision of investment services are concerned; and
- IVASS, with respect to the performance by banks of insurance mediation activities.

In particular, pursuant to the relevant provision of the Consolidated Banking Act, the Bank of Italy is responsible to adopt regulations and instructions (for both individual banks and banking groups) in the following five areas: (i) capital requirements; (ii) risk management; (iii) shareholdings that may be acquired and held by Italian banks or banking groups; (iv) corporate governance, administrative and accounting functions and internal audit and remuneration policies and (v) banks' public disclosure requirements with respect to these matters.

Furthermore, under the Consolidated Banking Act certain transactions (such as for instance mergers, demergers or, subject to certain conditions, transfer of undertakings involving Italian banks, amendments to the by-laws, etc.) are subject to the prior permission of the Bank of Italy, which may also exercise additional supervisory powers *vis-à-vis* Italian banks, including the request of information, on-site inspections and imposition of sanctions. The provisions related to such powers must however be interpreted in the light of, and are applicable to the extent they do not conflict with, the rules under the legal framework of the Single Supervisory Mechanism. From 4 November 2014, the Bank of Italy's supervisory powers have been significantly reduced as the ECB assumed specific supervisory tasks in the framework of the Single Supervisory Mechanism, as described below.

The Bank of Italy also acts with governmental entities to prevent usury by conducting quarterly surveys to measure the "average overall effective interest rate" charged by banks and financial intermediaries according to the Italian Usury Law. The MEF publishes the results of these surveys, which are used as the basis for the calculation of interest rate limits (beyond which, interest rates are considered usurious, which may trigger criminal sanctions, as well as the possibility of the relative agreement being declared null and void).

In addition, the Financial Information Unit (*Unità d'Informazione Finanziaria* or "**UIF**") of the Bank of Italy is in charge of preventing money laundering and the financing of terrorist activities in accordance with the AML Decree.

Overview of the EU legal framework

New EU legislation has been enacted in recent years to regulate a number of significant aspects of the activities conducted by EU credit institutions (including Italian banks). The implementation of such EU

legislation is still on-going and it is expected that the Italian regulatory framework will be further amended in the future. However, some of these EU provisions – in particular, those included in EU regulations, which are directly applicable in all EU Member States – do not require the adoption of any national implementing laws or regulations.

In such respect, the main EU provisions directly applicable to Italian banks are those set forth in Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 setting out prudential requirements for credit institutions and investment firms ((“**CRR**”) which, jointly with Directive No. 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the “**CRD IV**”), forms the so-called “**CRD IV Package**”). The CRD IV Package is aimed at implementing in Europe the rules defined under the Basel III framework and constitutes part of the “**Single Rulebook**”, i.e. a set of harmonized rules applying at EU level representing the legal foundation of the EU “**Banking Union**”.

The first pillar of the Banking Union consists of the “**Single Supervisory Mechanism**” or “**SSM**”, as set up under the SSM Regulation and SSM Framework Regulation (as defined below). The second pillar consists of the “**Single Resolution Mechanism**” or “**SRM**” established under the SRM Regulation (as defined below) and the BRRD. The third pillar will consist of the European Deposit Insurance Scheme (“**EDIS**”), which is however still due to be established. A proposal for a regulation establishing the EDIS was published by the European Commission on 24 November 2015 and is currently under discussion. National deposit guarantee schemes are already regulated under the Deposit Guarantee Schemes Directive No. 2014/49/EU (the “**New DGS Directive**”), superseding Directive No. 1994/19/EC (the “**Former DGS Directive**”). The SSM, SRM and New DGS Directive are briefly described below.

European regulatory and supervisory authorities

Under the European framework the following authorities may exercise certain regulatory powers in the field of banking supervision:

- the ECB, which is the entity ultimately responsible for the supervision of all credit institutions established in Member States of the Eurozone (or other Member States that enter into close cooperation agreements with the SSM); and
- the EBA, whose functions and powers are governed by Regulation (EU) No. 1093/2010 of the European Parliament and of the Council of 24 November 2010 (as amended).

In particular, the EBA is in charge, *inter alia*, of developing the Single Rulebook by drafting and proposing regulatory and implementing technical standards to be endorsed by the EU Commission by means of regulations. In addition, the EBA may also conduct certain tests involving the European banking and financial system.

The EBA forms part of the European System of Financial Supervision (“**ESFS**”) and, in particular, is one of the European Supervisory Authorities (“**ESA**”) in charge of micro-prudential supervision of financial institutions, along with the European Securities and Markets Authority (“**ESMA**”) and the European Insurance and Occupational Pensions Authority (“**EIOPA**”). In addition, within the context of the ESFS the European Systemic Risk Board (“**ESRB**”), which is established under the aegis of the ECB, is in charge of the macro-prudential oversight of the financial system as a whole.

Banking activity authorization

Pursuant to Article 10 of the Consolidated Banking Act, the performance of deposit taking from the public and lending constitute banking activity which is subject to licensing requirements. According to the rules governing the functioning of the SSM, the ECB has the power to grant the authorization necessary for the performance of banking activities within the SSM, based on a proposal made by national competent authorities (i.e. the Bank of Italy as far as Italian banks are concerned) and under a joint procedure. The Bank of Italy (pursuant to Article 13 of the Consolidated Banking Act) holds a register of banks authorized to conduct banking activities in Italy. Banks can be established as joint stock companies (*società per azioni*) and limited liability co-operatives (*banche popolari* and *banche di credito cooperativo*).

Banking Union-Single Supervisory Mechanism

On 15 October 2013, the Council of the European Union adopted the Single Supervisory Mechanism Regulation No. 1024/2013 (the "**SSM Regulation**") establishing a Single Supervisory Mechanism for Eurozone banks and other credit institutions, which, beginning on 4 November 2014, gave the ECB, in conjunction with the national regulatory authorities of the Eurozone states, direct supervisory responsibility over "significant banks" in the Eurozone. Significant banks include, *inter alia*, any Eurozone bank that has: (i) assets greater than €30 billion; (ii) assets constituting at least 20% of its home country's gross domestic product; or (iii) requested or received direct public financial assistance from the European Financial Stability Facility or the European Stability Mechanism. The ECB also has the right to impose monetary sanctions and set binding regulatory standards. We are considered to be a "less significant bank" subject only to indirect ECB's oversight under the SSM Regulation as per the list published by the ECB on 4 September 2014 and subsequently updated. The SSM Regulation is complemented by the "**SSM Framework Regulation**" (Regulation ECB/2014/17 establishing the framework for cooperation within the Single Supervisory Mechanism between the ECB and national competent authorities and with national designated authorities) adopted by the ECB on 16 April 2014. The ECB also adopted ancillary legislation on the bodies that operate in the framework of the Single Supervisory Mechanism (e.g. the Supervisory Board, the Governing Council, the Mediation Panel and the Administrative Board of Review) and a guide to banking supervision describing the modalities of the new supervision under the SSM through dedicated joint supervisory teams (one for each supervised entity) acting under tailored supervisory examination processes and defined cycles of supervision.

With respect to significant institutions, national regulatory authorities continue to remain responsible for supervisory matters not conferred on the ECB, such as investment services, consumer protection, money laundering, payment services, and branches of third country banks. The ECB, on the other hand, is exclusively responsible for prudential supervision, which includes, *inter alia*, the power to: (i) authorize and withdraw authorization from all credit institutions in the Eurozone; (ii) assess acquisition and disposal of holdings in banks; (iii) ensure compliance with prudential requirements laid down in the CRD IV Package; (iv) set, where necessary, higher prudential requirements for certain banks to protect financial stability under the conditions provided by EU law; (v) impose robust corporate governance practices and internal capital adequacy assessment controls; and (vi) intervene at the early stages when risks to the viability of a bank exist, in coordination with the relevant resolution authorities.

Banking Union-Bank Recovery and Resolution Directive and Single Resolution Mechanism under the SRM Regulation

On 15 May 2014 and on 15 July 2014 the BRRD and the SRM Regulation were approved, respectively. The BRRD introduces a harmonized framework for the recovery and resolution of credit institutions and certain investment firms within the EU. The BRRD, *inter alia*, (i) provides the Relevant Authorities ("resolution authorities" and the "competent authorities" as defined therein) with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimize taxpayers' exposure to losses and (ii) establishes mutualized national financing arrangements to provide financial support in resolution scenarios. The SRM Regulation applies analogous tools and powers within the area in which the SSM Regulation applies and, *inter alia*, (i) confers on a Single Resolution Board (that is to be considered a resolution authority for certain entities and groups) the tools and powers of national resolution authorities under the BRRD, subject in any event to the provisions included in the SRM Regulation, and (ii) creates a Single Resolution Fund to provide financial support in resolution scenarios.

The powers conferred on Relevant Authorities in the BRRD and the SRM Regulation include write down/ conversion powers to ensure that capital instruments including, but not limited to, regulatory capital instruments, fully absorb losses at the point at which the issuing institution is failing or likely to fail, as well as a bail-in tool comprising a more general power for the Relevant Authorities to write-down or convert into equity, in certain circumstances and subject to certain exclusions, regulatory capital instruments, subordinated debt, certain types of senior debt and certain other liabilities. As for capital instruments included in regulatory capital, the BRRD provides that resolution authorities are required to write down such capital instruments in full on a permanent basis, or convert them in full into Common Equity Tier 1 ("**CET1**") instruments, before any resolution action is taken. The power to write down or convert these types of capital instruments (the "**Regulatory Capital Write-Down Power**") may also be exercised independently of resolution actions *provided that* certain conditions are met.

The bail-in tool is a resolution action and as such is subject to the resolution criteria set out in the BRRD (which include, but are not limited to, a determination that the credit institution is failing or is likely to fail). Subject to certain preferred liabilities specified in the BRRD (including secured liabilities, bank deposits guaranteed under an EU Member State's deposit guarantee scheme, liabilities arising by virtue of the holding of client money, liabilities to other non-group banks or investment firms that have an original maturity date of less than seven days and certain other exemptions) it is intended that all liabilities of an institution (including senior debt) ("**Eligible Liabilities**") should potentially be subject to the general bail-in tool. The powers under the BRRD include the power to write down or convert Eligible Liabilities into CET1 instruments, as well as to cancel any debt instrument evidencing an Eligible Liability. The Regulatory Capital Write-Down Power and the general bail-in tool described above are each referred to as a "**Resolution Power**" and, collectively, are referred to herein as the "**Resolution Powers**".

The BRRD provides that a write-down/conversion resulting from the use of any of the Resolution Powers would, in summary, follow the ordinary allocation of losses and ranking in an insolvency of the relevant institution, meaning, *inter alia*, that the authorities shall exercise the write down powers in a way that results in CET1 instruments being written down first in proportion to the relevant losses and, thereafter, the principal amount of other capital instruments being written down on a permanent basis (with subordinated debt being written down/ converted before senior unsecured debt). CET1 instruments may be issued to holders of other capital instruments that are written down.

In addition, the BRRD and the SRM Regulation provide Relevant Authorities with broad powers to implement other resolution measures with respect to distressed banks which satisfy the conditions for resolution, which may include (without limitation) the sale of bank's business, the separation of assets, the replacement or substitution of the bank as obligor in respect of debt instruments, modification to the terms of debt instruments (including altering the maturity and/or the amount of interest payable and/or imposing a temporary suspension of payments) and discounting the listing and admission to trading of financial instruments.

The BRRD has been implemented in Italy through the adoption of two Legislative Decrees by the Italian government (together, the "**BRRD Decrees**"). One implements the provisions of BRRD relating to resolution actions while the other deals principally with recovery plans, early intervention and changes to the creditor hierarchy. The BRRD Decrees entered into force on 16 November 2015, save that: (i) the bail-in tool applied from 1 January 2016; and (ii) a "depositor preference" granted for deposits other than those protected by the deposit guarantee scheme and those of individuals and SME's will apply from 1 January 2019.

If a bank is unstable or at risk of becoming unstable, the Bank of Italy could implement various measures to remedy the situation, as an alternative to compulsory liquidation, such as the bail-in, namely reduction powers with the possibility of cancelling the nominal value of the shares and the write-down of liabilities through their conversion into shares, to absorb losses and recapitalize the bank in distress or a new entity which continues the same functions.

In greater detail, Legislative Decree No. 180/2015 (Article 20, paragraph 1) requires that when the relevant conditions are satisfied, the Bank of Italy may impose: (i) the write-down or conversion of shares, other equity investments and capital instruments (Common Equity Tier 1 items, Additional Tier 1 instruments, Tier 2 instruments) issued by the issuer; or, alternatively, (ii) when the measure indicated in point (i) does not allow the distress situation to be remedied, the adoption of resolution measures for the intermediary or compulsory liquidation.

Specifically, the shares, other equity investments and capital instruments issued by a distressed bank could be written down or converted (Article 27 of Legislative Decree No. 180/2015): (i) independently of the opening of the resolution or compulsory liquidation proceedings; (ii) in conjunction with a resolution action, when the resolution programme includes measures which involve the reduction in value for shareholders and creditors of their rights or conversion into capital; in this case, the reduction or conversion is imposed immediately before or at the same time as the application of these measures. The resolution measures (Article 39, paragraph 1 of Legislative Decree No. 180/2015) include the so-called bail in, which consists of reducing the rights of shareholders and creditors or the conversion of the rights of the latter into capital.

In applying the bail-in instrument, reductions must be carried out by the authorities in the following order of priority, until the losses are covered: (i) Common Equity Tier 1 instruments; (ii) Additional Tier 1

Instruments; (iii) Tier 2 Instruments including subordinated bonds; (iv) subordinated debts other than Additional Tier 1 instruments and Tier 2 instruments; and (v) the remaining liabilities, including unsubordinated (senior) bonds. Once losses are absorbed, or in the absence of losses, conversion into ordinary shares will proceed, in the following order: (i) Additional Tier 1 instruments; (ii) Tier 2 Instruments including subordinated bonds; (iii) subordinated debts other than Additional Tier 1 instruments and Tier 2 instruments; and (iv) the remaining liabilities, including unsubordinated (senior) bonds.

The bail in instrument described above can be applied both individually and in conjunction with the other resolution measures set out in the Italian provisions implementing the BRRD (Article 39, paragraph 1, of Legislative Decree No. 180/2015) namely: (i) the transfer of assets and legal relationships to a third-party; (ii) the transfer of assets and legal relationships to a bridge institution; and (iii) the transfer of assets and legal relationships to a special purpose vehicle for the management of activities.

Therefore, by applying a bail-in, holders of regulatory capital instruments or creditors of the bank will find themselves exposed to the risk of having their investments written down, written off, or even converted into equity instruments, even in the absence of a formal declaration of insolvency of the issuer. The provisions regarding bail-in can be applied to existing financial instruments.

The BRRD and the SRM Regulation represent the implementation in the European Economic Area of the non-viability requirements set out in the press release dated 13 January 2011 issued by the Basel Committee entitled "Minimum requirements to ensure loss absorbency at the point of non-viability", which forms a part of the broader Basel III requirements, implemented in the European Union through the CRD IV Package.

According to the BRRD each bank must prepare a recovery plan and submit it to the Relevant Authority, which must in turn prepare a resolution plan for each bank.

The entire regulatory framework involving business crisis resolution is aimed at enabling crisis management through the use of private sector resources, reducing the negative effects on the economic system and avoiding the cost of serious bail-outs for tax payers. Public financial support for a bank in crisis can only be granted after the resolution instruments described above have been applied and if the prerequisites required at European level by the State aid framework are satisfied.

Banking Union-Deposit insurance

On 9 March 2016 the provisions of the Legislative Decree No. 30/2016 implementing the New DGS Directive (the "**New DGSD Decree**") entered into force, save for certain exceptions.

The New DGSD Decree introduced a number of amendments to the provisions of the Consolidated Banking Act related to the functioning of deposit guarantee schemes. Pursuant to Article 96 of the Consolidated Banking Act, all Italian banks must be members of a guarantee fund, which preserves a deposit in case of insolvency of any authorized Italian bank. In particular, we are a member of the Interbank Deposit Guarantee Fund (*Fondo Interbancario di Tutela dei Depositi*) (the "**Guarantee Fund**"), which covers losses up to €100,000 per depositor held in the form of eligible deposits (as defined by the provisions set forth in the New DGSD Decree, which also indicates the categories of deposits and other funds or liabilities that are excluded from such coverage). These new provisions regulate, *inter alia*, the contributions to be made to the Guarantee Fund by their members and the minimum level of the available financial means of the Guarantee Fund-the target level to be reached by 2024 is set at 0.8% of the amount of the covered deposits of its members. See also "*Risk factors—We are required to make yearly contributions to the Single Resolution Fund and the Interbank Deposit Guarantee Fund, and in exceptional circumstances we may be required to make additional contributions*".

Acquisition of relevant shareholdings in banks

Directive No. 2007/44/EC and the Consolidated Banking Act, as implemented by the relevant CICR resolution, require that persons, whether acting alone or in concert, obtain prior authorization before acquiring equity interests in banks or bank holding companies which would result in such person owning 10% or more of the banks' share capital or its voting rights or otherwise controlling or exercising significant influence over the bank. Prior authorization is also required to obtain an ownership stake of (or higher than) 20%, 30% or 50% of the banks' share capital or its voting rights or any other stake which would result in a change of control of the bank. Any such authorization is granted by the ECB in cooperation with the Bank of Italy.

The ECB's authorization is also required for transactions involving an irrevocable commitment by an individual or a group to purchase a material equity interest in a bank or in the parent company of a banking group (such as auctions, public tender offers, or transactions that would result in an obligation to conduct a public tender offer). In addition, parties must disclose to the Bank of Italy and the ECB any agreement to jointly exercise voting rights in a bank or in the parent company of such bank.

Authorization requirements in relation to certain transactions

Pursuant to the provisions set forth in the Circular No. 285/2013 and related implementing regulations the perfection of certain transactions by Italian banks is subject to the prior authorization or non-objection by the competent supervisory authority. These transactions include, in particular, the approval of amendments to the by-laws of the bank, the purchase of a business (or parts thereof) as a going concern (if certain conditions are met), mergers and de-mergers involving Italian banks.

Capital adequacy requirements

In the wake of the global financial crisis that began in 2008, the Basel Committee on Banking Supervision approved, in the fourth quarter of 2010 and in January 2011, revised global regulatory standards under the Basel III framework.

The Basel III rules impose certain requirements on bank capital adequacy and liquidity, higher and better-quality capital, better risk coverage, measures to promote the build-up of capital that can be drawn down in periods of stress and the introduction of a leverage ratio as a backstop to the risk-based requirement as well as two global liquidity standards. They adopt a gradual approach, with the requirements to be implemented over time, with full enforcement in 2019.

The Basel III rules have been implemented in the EU through the CRD IV Package adopted on 26 June 2013. Full implementation began on 1 January 2014, with certain parts of the CRD IV Package being phased in over a period of time (the requirements will be largely fully effective by 2019 and some minor transitional provisions provide for their phase-in up to 2024). The CRD IV has been implemented in Italy through the Circular No. 285/2013 of the Bank of Italy and the relevant Legislative Decree, which amended a number of provisions included in the Consolidated Banking Act and the Consolidated Financial Act. Some of the rules introduced by the CRD IV are still due to be fully implemented (for instance, as regards the requirements applying to relevant shareholders or members of corporate bodies) while others (e.g. in relation to the sanctioning regime, which has been significantly changed) should only apply *ratione temporis* to breaches occurred after the entry into force of such new provisions.

Based on the framework mentioned above, Italian banks are required to comply with (i) a minimum CET1 Capital ratio of 4.5%, (ii) Tier 1 Capital ratio of 6.0% and (iii) Total Capital Ratio of 8.0%. These minimum ratios are complemented by the following capital buffers, to be met with CET1 capital:

- Capital conservation buffer: was set at 2.5% of RWA on a consolidated basis until 31 December 2015. On 4 October 2016 the Bank of Italy amended the Circular No. 285/2013 in order to set the capital conservation buffer applying to Italian banks (on a solo and consolidated basis) at (i) 1.25% from 1 January 2017 until 31 December 2017, (ii) 1.875% from 1 January 2018 until 31 December 2018, and (iii) 2.5% starting from 1 January 2019;

- Counter-cyclical capital buffer: is set by the Relevant Authority between 0%-2.5% (but may be set at a level which is higher than 2.5% where the competent authority considers that this is justified by the economic conditions of the Member State), with gradual introduction from 1 January 2016, and applying temporarily in the periods when the relevant national authorities considers the credit growth to be excessive. In particular, the relevant ratio for the calculation of such capital buffer has been set at 0% by the Bank of Italy for the first quarter of 2017;

- G-SII and O-SII buffer: a "**systemic buffer**" is provided for banks qualifying as "**global systemically important institutions**" (G-SII buffer) or "other systemically important institutions" (O-SII buffer) in order to counteract non-cyclical or systemic risks to the financial system or the real economy.

Failure to comply with such combined buffer requirements triggers restrictions on distributions and the need for the bank to adopt a capital conservation plan on necessary remedial actions.

The application of the rules on minimum regulatory capital and capital buffers mentioned above is without prejudice to the possibility for the Relevant Authorities to impose compliance with additional capital requirements to single institutions or groups.

Under the CRD IV Package, the recognition of regulatory capital instruments that will no longer be included in Tier 1 capital or Tier 2 capital will be gradually phased out over an eight-year period, due to begin as of 1 January 2014. From 2014, the grandfathered amount (as determined on the basis of a one-time calculation) of those regulatory capital instruments that may be recognized is reduced in steps of 10% per annum from 80% (in 2014) to 10% (in 2021), with the grandfathering to end at the beginning of 2022.

Under CRD IV, banks are also required to meet two liquidity standards: a liquidity coverage ratio ("**LCR**") and a net stable funding ratio ("**NSFR**"). The LCR requires banks to hold an amount of unencumbered, high quality liquid assets that can be used to offset the net cash outflows the bank would encounter under an acute short-term stress scenario. The NSFR measures the amount of longer-term, stable sources of funding employed by a bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on liquidity arising from off-balance sheet commitments and obligations.

The LCR was introduced on 1 January 2015; the minimum requirement began at 60%, rising in equal annual steps of 10 percentage points to reach 100% on 1 January 2018 (as of the date of this Prospectus, the LCR requirement is 80%). The Group's LCR increased between 31 December 2014 and 31 December 2015, going from 351% to 391%, before increasing to 502% as of 31 December 2016, primarily due to the effect of the Magellan acquisition. The decrease registered is due to the regular management of defaults and repayments as part of the Group's ongoing wholesale funding that operates within the risk appetite limits established by the Issuer.

The NSFR will remain subject to an observation period ahead of its planned implementation on 1 January 2018. As of 31 December 2016, the Group's NSFR was 115.3%.

Individually, both of the risk appetite indicators are above the required amount and the target values shown are always above the minimum amounts set by the Issuer (and consequently higher than the minimums required by Circular No. 285/2013 from the Bank of Italy).

Corporate governance, administrative and accounting organization and internal control

Circular No. 285/2013 contains rules designed to achieve more efficient organization of the corporate governance structure of Italian banks. The available governance models are: (i) the traditional model (composed of a board of directors and a board of statutory auditors), (ii) dualistic (composed of a management board and a supervisory board) or (iii) monistic (composed of a board of directors and a control committee). Basic rules of principle were adopted to distinguish among the functions of the various corporate bodies for strategic supervision, management and control to achieve the appropriate balance of powers and responsibilities. In addition, a number of provisions have been introduced in compliance with the CRD IV in order to regulate the compensation and incentives provided to members of banks' management and governance bodies and other risk takers or employees of the banks in line with the regulatory framework applicable at EU level.

In accordance with the proportionality principle, the corporate governance requirements applying under the Circular No. 285/2013 differ to some extent depending on whether a bank qualifies as (i) minor bank, (ii) intermediate bank, or (iii) large bank in terms of size or operational complexity. The notion under (iii) encompasses, *inter alia*, significant credit institutions subject to the direct supervision of the ECB within the context of the Single Supervisory Mechanism as well as banks whose shares are publicly traded on regulated markets.

Moreover, for banks publicly traded on regulated markets the Consolidated Financial Act provides specific requirements for the composition of management and governance bodies in order to protect the interests of investors and minority shareholders. In addition, the Consolidated Financial Act sets forth disclosure rules that govern the financial information that listed banks must publicly disclose to the market, the annual corporate governance report in which listed banks must describe their corporate governance model and ownership structures and the remuneration report in which listed banks must describe their remuneration policies and the remunerations paid to directors and managers.

Late Payment in Commercial Transactions

In 2000 the European Commission issued a first directive (Directive No. 2000/35/EU or "**Directive 2000/35**") to regulate late payments in commercial transactions between undertakings (including professions) or between undertakings and public authorities which lead to the delivery of goods or the provision of services for remuneration. The primary objective of the Directive was to standardize the terms of payment of trade receivables and the late payment interest in the Member States, ensuring that the deadlines are met even in situations of potential contractual imbalance, particularly in the relationship between companies and public administrations. In particular, this directive set forth in all Member States (i) a single term of payment of 30 days (which could be amended by the parties with an agreement in writing and to the extent that is not grossly unfair to the creditor) and (ii) a minimum interest rate equal to the sum of the interest rate applied by the European Central Bank to its most recent main refinancing operation carried out before the first calendar day of the half-year in question, plus at least seven percentage points (the "**bps**").

The provisions of the Directive 2000/35 EC apply to commercial transactions entered into prior to 1 January 2013. The Directive 2000/35 has been implemented in Italy in 2002.

With the EU Directive No. 2011/7/EU and the related Legislative Decree of implementation, the discipline of the late payments has been integrated through: (i) a reshaping of the period within which the debtor must make payment, providing for debtors who are bodies of Italian national health system have a longer term of payment equal to 60 days, (ii) additional limitations to the possibility to derogate, in a pejorative sense to the lender, and (iii) the increase of the minimum level of interest from 700 bps to 800 bps to be added to interest rate applied by the European Central Bank to its most recent main refinancing operation. In particular, following further amendments to the relevant law, the reference interest rate should be increased with the percentage determined from time to time by the Ministry of Economy and Finance which, for the first half of 2015, was equal to 0.05%. Therefore the interest rate then applicable to commercial transactions in Italy was equal to 8.05%. The provisions of the abovementioned Legislative Decree apply with reference to payments made as remuneration for commercial transactions as of 1 January 2013.

Factoring

Factoring is governed by articles 1260 to 1267 of the Civil Code regarding the transfer of credit and by Law No. 52 of 21 February 1991.

Certification of Receivables

In order to promote the sale of receivables claimed by undertakings *vis-à-vis* the public administration, the latter must certify, following an application by the creditor, any receivable relating to amounts due to supplies, contracts and professional services (*i.e.* trade receivables). The certification process is managed through the electronic platform for certification of receivables created by the Ministry of Economy and Finance. The application for the certification of receivables may be filed by anyone (companies, sole proprietorships or individuals) who claims a trade receivable which is certain, due, payable and not time barred *vis-à-vis* the public administration. Notwithstanding the non time-barring requirement in relation to the trade receivable, it is possible to submit motions for the certification at any time

Electronic Invoicing

As of 6 June 2014, ministries, tax agencies and national security agencies can no longer accept invoices issued or transmitted in paper form. As of 31 March 2015, the same rules shall apply to the remaining national institutions and local governments, including the SSN. Moreover, starting from the three months following such dates, the public administrations can no longer make payments, even in part, to the creditor unless the latter has sent the invoice in electronic form. The obligation of electronic invoicing *vis-à-vis* the public administration was introduced by the annual 2008 Budget Law (the "**2008 Budget Law**"). The 2008 Budget Law provided that the transmission of electronic invoices to government departments must be made through the Interchange System ("**SDI**"). The methods of operation of the SDI were defined pursuant to ministerial decree No. 55 of 2013.

The legislator has introduced electronic invoicing in relations between business and public administrations with the 2008 Budget Law as amended instructing the Ministry of Economy and Finance to set up the SDI that is administered by the tax authorities and managed from a technical standpoint by Sogei S.p.A. The deadline,

previously scheduled for 6 June 2016, for the involvement of every public administrations in the system has been brought forward.

Legislative Decree No. 127/2015 provides that (i) starting on 1 July 2016 tax authorities make available to taxpayers a free service for the origination, transmission and storing of the electronic invoices; (ii) and from 1 January 2017 the Ministry of Economy and Finance make available to persons who are subject to VAT the SDI already available for the invoicing to public administrations.

In addition, Decree Law No. 193 of 2015 provides that a from 1 January 2017 taxpayer may opt from the electronic transmission, also through the SDI, of all the data of the invoices (both active and passive) relating transaction which are relevant for the purposes of the VAT system carried out since 1 January 2017.

Ministry Decree of 4 August 2016 establishes the modalities in order to benefit from the reduction of the limitation period and, with Directorial Decree No. 182070 of 2016, the tax authority indicated: (i) the information to be transmitted; (ii) information format; (iii) technical rules and solutions; (iv) terms for the safe electronic transmission of the data of the invoices issued and received, in order to allow VAT taxpayers to exercise the relative option and to make available the information received pursuant to Article 1 (1) and (2) of Legislative Decree No. 127/2015. In this regard, the option may be exercised through the electronic systems of the authority, its effects last for the calendar year of beginning and following four years (with some exceptions for the individuals that begin the activity during the year and intend to exercise the option as from the first day of activity) and it shall not be withdrawn prior to 5 years and shall extend for each successive five-year period.

In view to allow taxpayers and intermediaries to duly and fully evaluate the opportunity to exercise the aforementioned options, Tax Authority Decision of 1 December 2016 set out a longer time frame in this respect.

In addition, taxpayers that exercise the option will be entitled to modify the quarterly information flows within 15 days of the expiration of the term provided for the transmission of the date relating to each quarter.

In any event, the foregoing system relates to electronic invoicing in private relationships; accordingly, it does not involve the Issuer.

Within 31 March 2017 the Issuer will evaluate the opportunity to benefit from the incentives deriving from the adoption to the aforementioned Decree, thus offering the new service to customers.

As of the date of this Prospectus the Issuer is not part to this system; accordingly, there are neither obligations nor risks in this regard.

Securitization of Receivables

In the course of our business, we carry out securitizations of receivables purchased. These transactions are governed by Law No. 130 of 30 April 1999 as subsequently amended and integrated (the "**Securitization Law**"). The Securitization Law applies to securitization of receivables effected by assignment of receivables or the issuance of debt securities or commercial papers by special purpose vehicles, specifically established to effect the securitization transaction. The receivables are segregated assets of the special purpose vehicle and therefore cannot be the object of an enforcement actions conducted by creditors other than the holders of securities issued for the purpose of financing the purchase of those receivables.

Anti-Money Laundering and Anti-Terrorism Regulation

Banks are subject to anti-money laundering rules and regulations, set forth mainly the by AML Decree. Under current anti-money laundering rules and regulations, banks are required to:

(i) identify and properly verify their customers (using more rigorous procedures in circumstances with a heightened risk of money laundering or terrorism financing);

(ii) set up a consolidated computer archive (*Archivio Unico Informatico* or "**AUI**");

(iii) record and preserve identifying data and other information related to relationships and transactions in the AUI;

(iv) transmit a statistical flow to UIF (*Unità di Informazione Finanziaria* or "**UIF**") and manage certain related issues;

(v) report suspicious transactions; and

(vi) establish measures of internal control and ensure the adequate training of employees to prevent money laundering transactions.

The AML Decree is complemented by various Rulings of the Bank of Italy pursuant to the related provision of such decree.

Administrative Liability of Entities

We are subject to the obligations arising from the Legislative Decree No. 231/2001 (the "**Decree 231**", governing the administrative liability of companies.

Decree 231 requires Italian corporate entities to implement compliance procedures in order to avoid administrative liability under Decree 231 for crimes committed in their interest or to their advantage by individuals who have a functional relationship with such corporate entities (such as employees, directors and representatives). Pursuant to Decree 231, crimes from which corporate entity's administrative liability may arise include, but are not limited to, those committed while dealing with public administrations (e.g. corruption, bribery, misappropriation of public contributions and fraud to the detriment of the state), corporate crimes, environmental crimes and crimes of manslaughter or serious injury deriving from violation of relevant provisions presiding the health and safety at the workplace.

Organizational model codes ("**OMCs**") allow corporate entities that have implemented them in compliance with Decree 231 to avoid administrative liability, provided that an independent officer or body, such as a supervisory body (*Organismo di Vigilanza*), is appointed with the task to supervise the OMC implementation. However, the adoption of an OMC model by a company does not in itself exclude any form of liability under Decree 231, and failure to update these OMC models increases the risk that administrative liability under Decree 231 may arise.

If a crime falling within the scope of Decree 231 is committed, the court will examine the controls implemented by the relevant company and, should the controls be considered inadequate, implemented ineffectively or insufficiently monitored, eventually imposing economic sanctions (e.g. fines and confiscation of profits) and legal sanctions, including but not limited to: (i) prohibition from continuing the business affected by the criminal offenses; (ii) suspension and revocation of current or future authorizations, licenses or concessions; (iii) prohibition from contracting with public authorities; (iv) exclusion from subsidies, loans contributions or, where applicable, the revocation of those already granted; and (v) prohibition on publicizing goods or services. The duration of these prohibitions ranges from a minimum of three months to a maximum of two years (in very serious cases, however, some of these prohibitions can become permanent).

Privacy

As part of our activities and, in particular, the processing of personal data of individuals and entities we come into contact with, we are subject to the provisions of Legislative Decree No. 196/2003, as subsequently amended and supplemented.

Health and Safety at Work

We are subject to the provisions of Legislative Decree No. 81 of 9 April 2008, which sets forth laws and regulations on health and safety at work place.

Default of Italian Public Entities

In accordance with the rules set forth by European System of Accounts-Sec 2010 Regulation and with the Guidelines on public deficit and debt, the central public administration (*i.e*. the institutional unit which comprises the public administration,) contributes with its accounts to the construction of the consolidated income statement of the public administration.

Default by the central public administration is only conceivable if the State itself is unable to honor its debts.

Pursuant to Article 119 of the Italian Constitution as amended, the regions of Italy (the "**Italian Regions**") are required to comply with the budgetary balance and contribute with their accounts to the enforcement of the economic and financial constraints deriving from the European Union. In this regard, pursuant to Article 120 of the Italian Constitution and its implementing provisions, the Prime Minister is allowed to grant to the relevant institution a reasonable time to take the due or necessary measures. After the expiry of such period, the Council of Ministers has the right to directly adopt the necessary measures, including the appointment of a special commissioner. In the light of the above, the financial autonomy of the Italian Regions encounters limits that prevent the possibility of a default of such regional administration, given that the respect of the budget limits is ensured by the power of intervention granted to the state. Furthermore, "serious" violations of the budgetary limits may lead to the application of Article 126 of the Italian Constitution, providing that for the dissolution of the regional councils and the impeachment of the Chairman of the Region responsible for acts deemed contrary to the Constitution or for serious violations of the law by means of a decree of the President of the Republic of Italy. The evaluation on the "seriousness" of such breaches, pursuant to Article 126 of the Italian Constitution, generally involves a political and discretionary assessment.

ASLs and AOs are entities defined as "instrumental" to the Italian Regions. These institutions, in fact, are created by the respective regions to provide services of public interest (pursuant to Article 32 of the Italian Constitution for what concerns the right to health) and such regions are responsible for their existence and proper functioning. Since (i) under Italian law ASLs and AOs are considered public entities (with their own legal status) "controlled" by the Italian Regions, and (ii) government agencies cannot be the subject, in case of insolvency, of either winding-up procedures or creditor arrangements (the so called "*concordato preventivo*"), Italian Regions (which are entitled to determine the budget of ASLs and AOs) are obliged, on a territorial basis, to ensure the financial stability of ASLs and AOs covering any of their deficit. In particular, the Plenary Section of the Italian Supreme Court established the principle that Italian Regions are required to respond, in case of default of ASLs and AOs, for the liabilities undertook by the health institutions, even in the case of obligations undertake by further dissolved entities (such as the *Unità Sanitaria Locale* or "USL").

The Italian Regions under restructuring plans manage the additional funds received from the State in a centralized manner, as they: (i) pay directly the outstanding unpaid invoices of ASLs and/or AOs, or (ii) provide funds to ASLs and/or AOs in order to ensure the payment of the outstanding unpaid invoices.

Unlike the Central Government and the Italian Regions, in compliance with the current regulatory framework, local authorities (municipalities, provinces and mountain communities) are subject to the risk of default. However, this is mitigated by the Italian State by making available to local authorities having declared insolvency the recourse of the procedure of pre-insolvency, and not able to pay the debt with their own means, the "revolving fund to ensure financial stability of local authorities" which, however, does not guarantee all the liabilities of these entities.

In particular, local authorities in financial distress are governed by the Consolidated Local Authorities Act (the "**Consolidated Local Authorities Act**") pursuant to which such entities are excluded from the list of private entities to which the insolvency provisions apply.

According to article 242 of the Consolidated Local Authorities Act, the entities that present a serious and indisputable imbalance condition-detectable on the basis of a table created for that purpose containing objective parameters-have to be considered structurally loss-making.

Article 244 of the Consolidated Local Authorities Act, states that there is a situation of financial distress if (i) the entity cannot guarantee the performance of fundamental functions and services, or (ii) third parties own liquid and payable debts against the local authorities which cannot be paid effectively through the ordinary procedure. If Article 244 of the Consolidated Local Authorities Act applies, a specific procedure enters into force requiring the detection and payment of debts and the financial recovery of the authority. The procedure starts with a resolution adopted by the Council of the local authority declaring the situation of financial distress and involves the appointment of an Extraordinary Liquidation Organ ("**ELO**") by the Ministry of Interior. The whole recovery process is governed by ELO, which settle the debts with the means permitted by the law and, in particular determines the amounts to be paid and then executes the payments.

The situation of financial distress implies precautionary measures and restrictive consequences pursuant to Article 248 of the Consolidated Local Authorities Act, including the inability to undertake or pursue enforcement actions against the involved local authority, for the debts falling within the jurisdiction of ELO,

until the approval of the statement of liquidation (dealing therefore with debts related to management acts or facts that occurred within 31 December of the year preceding the year of the assumption of the re-adjusted financial statements, even though established subsequently, with jurisdictional measure).

In the event of financial distress and submission to the relevant procedure, the creditors of the local authorities are required to file a proof of claim, together with the appropriate documentation demonstrating the existence of the debt, the related amount and possible preemptive rights, in order to be included in the plan for creditor discovery and, subsequently, not to be excluded from the distribution of assets.

The filing of a proof of claim does not constitute a form of acquiescence by the creditor to what will be decided in the event of the liquidation of the bodies of the distressed entity, and does not affect, therefore, the possibility for the creditors to undertake at a later point (as the debtor returns to be solvent) an enforcement actions, in order to recover part of the credit which was non collected in the liquidation procedure (such as interest and currency revaluation balances).

The liquidation and payment of the debts of the insolvency assets can be made in compliance with two alternative procedures, an ordinary one (which should involve, in principle, the full payment of the claimed receivables) and a simplified one (by means of which it is possible to propose payment to creditors to an extent that varies from 40% to 60% of the credit amount), covered by Articles 256 and 258 of the Consolidated Local Authorities Act, respectively. With regard to both procedures, there is a risk that the credits claimed against the local authority may not be fully satisfied. However, if through the procedure, the creditors have obtained a jurisdictional measure ordering the payment of what they are owed (e.g. order for payment), they will be able to carry out, once the local authority returns to be solvent, an appropriate executive action in order to recover the total amount due.

As an alternative to the financial distress, Articles 243—*bis*, *ter* and *quarter* of the Consolidated Local Authorities Act cover the multiannual financial compensation procedure to which local authorities, with the resolution of the Board, can access. The possibility to access the compensation procedure is an important tool for local authorities in a situation immediately preceding (and close enough) financial distress. In the abovementioned procedure, the identification and the management of consolidation measures are assigned to ordinary bodies of the local authority. The Board shall approve the multiannual financial compensation plan for a maximum of 10 (ten) years and shall transmit it to the Court of Auditors for their acceptance or rejection. In order to implement the plan, the local authority shall be provided with the ascertainment of all the off-balance sheet debts. The local authority can finance its debts through a rescheduling plan for a maximum of 10 (ten) years (*i.e.* the same term requested for the multiannual financial compensation plan). The multiannual compensation procedure (together with the ten-year rescheduling plan) entails the full payment of account receivables by the local authority. The creditor can decline the rescheduling plan and he can bring a claim to the local authority in order to recover payments due. The multiannual compensation procedure suspends executive proceedings from being pursued from the date of the resolution adopted for the implementation of the hereby mentioned procedure to the date of the approval (or rejection) of the compensation plan by the Court of Auditors.

With regard to economic public entities, they are subject to the compulsory administrative liquidation meant to liquidate their assets in case of insolvency; such a proceeding shall satisfy the creditors on the basis of the *par condicio creditorum* principle. The insolvency procedure is aimed at the extinction of the entity, and is entrusted to a liquidator, who shall carry out all the activities intended for the winding-up. The above procedure includes: the assessment of liabilities, the liquidation and the distribution of assets. The main risk consists in unsatisfied creditors, in the event that the revenues cannot fully discharge the debts of the entity. In this case, no claim can be submitted to the entity, because of the scope of the compulsory administrative liquidation.

There are relevant provisions applicable in case of:

- Distress of Universities, qualified as non-economic public entities; in case the University is not able to perform its fundamental functions or reimburse its current liabilities, a procedure, similar to the one required for local authorities, is activated;

- Suppression and liquidation of public entities in deficit, which are not subject to the above-mentioned procedures: in that event, a similar process is activated.

The 2016 Italian Stability Law has introduced several new titles in terms of default of public entities. In particular, with reference to the pre-crisis situation:

- All the local entities that during 2013 and 2014 presented multiannual financial compensation procedures according to Article 243-bis of the Consolidated Local Authorities Act, will benefit of an extension of what is currently envisaged only for the experimenting municipalities in terms of longest time frames (thirty years) of the deficit recovery deriving from the extraordinary review of residuals. Such entities may reformulate the precedent plan consistently with the period of thirty years, within six months from the entry into force of the 2016 Italian Stability Law. In addition, the repayment of the liquidity advances issued by such entities is made within a maximum period of thirty years;

- The entities that have obtained the approval of the multiannual financial compensation plan can use the resources deriving from trading operations of loans, but also from the repurchase of issued debt securities, without restrictions on their intended use for the duration of the plan.

As regards hospital entities in a deficit situation, it is established that submission to the deficit recovery shall be made for all those entities that (including ASL, starting from 2017) present deviations between revenues and costs higher than 10% or that do not follow the parameters, established by the Ministry of Health, concerning volumes, quality, outcome of treatments.

The Ministerial Decree of 21 June 2016 (the "**Health Decree**") concerns the deficit recovery plan for hospital authorities, university hospital authorities, public science institutions for hospitalization and treatment or other public entities.

The Health Decree's aim is to allow Italian Regions to identify and resolve the following problems: (a) high documented costs if equal to or higher than 10% of revenues or, as an absolute value, equal to at least €10 million; and (b) a failure to comply with the parameters relating to volumes, quality and treatment results.

The same entities must submit, to their local Region, a three-year recovery plan-which is regularly monitored (on both a quarterly and yearly basis)-aiming to reach/re-establish balance, to be defined in accordance with the Health Decree guidelines. In particular, the plan must:

- analyze the entities' economic and management situation of the last three years;

- define a recovery strategy;

- draft an estimated and programmed profit and loss statement;

- define means of monitoring, verifying and analyzing the plan, by means of quality and quantity indicators; and

- take into account any regional plan, as applicable.

Centers of responsibility and cost must be set up in every entity to which the recovery plan applies. Should the plan fail to be approved, or in the event of a negative outcome of a yearly verification, the general managers shall be required to leave their office.

In the Issuer's view, the Healthcare Decree substantially reproduces for hospital authorities what is already provided for the Region in relation to the recovery plan. The aim is to reduce the deficit of the hospital authority through a reorganization plan with consequent cut of the costs. At this stage the Issuer deems that there are not significant risks, or in any event different, from the experience gained by the Issuer on Regions under recovery or receivership (thus, controlled by the MEF), obliged to draft plans more complex than those to be prepared by the hospital authorities. According to the Issuer, the risks will be the same in both circumstances: possible contractions in payment terms (that could entail an higher purchase commission of the receivables towards those entities).

Enforceability of the Sale of Receivable Against Public Entities

The relevant provisions concerning the sale of business receivables apply to the agreements with entities required to comply with Legislative Decree No. 50 of 2016 (the "**Public Procurement Code**"), such as health authorities and the public administration. Furthermore, Article 106 of the Public Procurement Code provides

special rules with respect to the mechanisms of enforceability of such sale, stating that "for the purpose of enforcing actions *vis-à-vis* the commissioning bodies which are public authorities, the sale of receivables must be executed through a public deed or an authenticated private act and must be notified to the contracting debtors. The sale of receivables deriving from tenders, authorization, design competition, are effective and enforceable against the commissioning bodies which are also public authorities if these do not oppose the sale with a communication to be notified to the transferor and the transferee within forty-five days from the notification of the sale. The public administration, in the contracts or in a separate document, is allowed to accept the transfer by the contractor of all or part of the receivables that will become due. In any case, the public administration which was notified of the sale is entitled to enforce against the assignee all rights enforceable against the contractor-transferor under the contract entered into with such transferor in relation to works, services, supplies and design".

Following the entry into force of the Law Decree No. 66 of 24 April 2014, Article 106 of the Public Procurement Code does not apply to the sale of receivables certified through the electronic platform for the electronic management of the issuance of the certificates. The sales of certified receivables, in fact, must be considered as notified, effective and enforceable against the transferred public administration from the date of communication of the sale to the public administration through the electronic platform, which provides for a certain date, unless the notice is not opposed within seven days from the receipt of such communication.

Non-foreclosure of Expenditures of Health Institutions

According to the applicable provisions of the Law Decree No. 66 of 24 April 2014 (that recently amended the current framework), the amounts due in any way to ASL and/or AO and to entities of hospitalization and scientific health care "are not subject to enforcement up to the amounts consisting in wages and salaries of employees or authorized external employees, as well as to funds earmarked for the purpose of provision of essential health services defined by the Minister of Health, in agreement with the Minister of the Treasury, to be issued within two months from the date of entry into force of the law of conversion of this Decree Law. To this end, the administrative body of the aforementioned entities, by resolution to be adopted every three months, quantifies in advance the sums recalled in the first period". The essential health services have been identified by the relevant provisions in: "a) basic general and pediatric medical assistance; b) medical and specialist internal assistance; c) public or external authorized hospital compulsory assistance; d) pharmaceutical care". The law has thus intended to confer the non-disposal nature to receivables and amounts stationed in the budget of the health agencies, to the extent that these items prove to be "intended for a public service".

Split-payment for VAT related to transactions with public entities

The 2015 Budget Law introduced changes to the VAT regime applicable to transaction carried out by public entities, including debtors within the Italian national healthcare system and the public administration, referred to as the Split Payment Mechanism.

The Split Payment Mechanism was introduced in EU Directive No. 2006/112/CE of 28 November 2006 ("**VAT Directive**") dealing with the common system of value added tax. The VAT Directive expressly provides the possibility of derogating from the ordinary charge system; allowing for the adoption of alternative systems *provided that* they are authorized by the Council of the European Union. The authorization was granted on 14 July 2015. The Council of European Union confirmed the starting date for the period of eligibility as of 1 January 2015 as provided in 2015 Italian Stability Law.

Its purpose is to counter VAT evasion in certain economic sectors in which, as noted by the financial administration, this kind of evasion has been particularly accentuated.

In details, pursuant to such mechanism, VAT on certain sales of goods and provisions of services rendered to public entities by suppliers will be paid by public entities and not by suppliers, as required under the previously applicable legislation. Therefore, payment of VAT will be made to the Tax authority directly by the public entities, while payment of the taxable amount will be made to suppliers. The public entity's supplier may claim, as a priority, on a quarterly and annual basis, the reimbursement of the deductible surpluses pursuant to the VAT Decree.

The Split Payment Mechanism was authorized by the European Commission effective from 1 January 2015 and will be applicable until 31 December 2017. By that date, adequate controls should have been developed based on the data acquired through electronic invoicing. The Split Payment Mechanism was authorized by the Council of the European Union effective from 1 January 2015 and will be applicable until 31 December 2017. By that date, adequate controls should have been developed based on the data acquired through electronic invoicing. We cannot exclude that application of the Split Payment Mechanism will be extended by the Council of the European Union for a further period after 31 December 2017. In this respect, the Italian government has recently applied for the extension of said measure to 2020.

Whistleblowing

The Legislative Decree which implemented Directive No. 2013/36 / EU (CRD IV Directive), incorporated Article 52—*bis* in the Consolidated Banking Act, entitled "*Internal Systems for the reporting of violations*". The Bank of Italy implemented article 52—*bis* of the Consolidated Banking Act by publishing, on 21 July 2015, the eleventh update to Circular No. 285 of 17 December 2013, entitled "*Supervisory Provisions for Banks*".

The new regulation establishes, for banks, the requirement to have an internal reporting system (*whistleblowing*) that allows their staff to report acts or facts that may constitute a breach of the rules governing banking activities, as defined by Article 10 of the Consolidated Banking Act. In particular, banks are required to (i) identify the person responsible for the internal reporting system; (ii) define the internal reporting procedure and the timing of all stages of the procedure transposed into operating procedures and approved by the Board of Directors, ensuring impartiality and independent judgment of those who receive, examine and evaluate the reports as well as the confidentiality and protection of personal data of the person who make the report and the reported person; and (iii) circulate in a clear and exhaustive way, to all the staff, the reporting procedure adopted, including those measures to ensure privacy protection.

Spain

Overview of Regulations Applicable to Spanish Branches of EU banks

Spanish branches of banks authorized to conduct business in other EU member states (*e.g.*, Banca Farmafactoring Spa Sucursal en España) are entitled to carry out in Spain activities subject to mutual recognition, as set forth in Directive No. 2013/36/EU, of 26 June 2013, as amended. For this purpose, the relevant authorization granted to the EU bank in its state of origin, its by-laws and the applicable regulations shall entitle it to carry out such activities. When conducting the relevant activities in Spain, the EU bank shall comply with the applicable Spanish regulations on organization and discipline of credit entities, and laws on public interest.

Banking activity in Spain is primarily regulated by the applicable rules enacted by the competent EU institutions, the Spanish Banking Act (Law 10/2014, of 26 June, on the organization, supervision and solvency of credit institutions, as amended, "**Law 10/2014**") and the relating developing regulations issued by the Bank of Spain.

The legal and regulatory provisions that are particularly relevant to our business include: (i) the European legislation implementing international treaties, in particular, the so-called "**Basel Accord**", and (ii) the Law on usury (the "**Spanish Law on Usury**").

Regulation of the disclosure of fees and interest rates

Interest rates on most kinds of loans and deposits are not subject to a maximum limit, other than Spanish Law on Usury. Banks must publish their preferential rates, rates applied on overdrafts and fees and commissions charged in connection with banking transactions.

Late Payment in Commercial Transactions

Law 3/2004, of 29 December 2004 establishing measures to fight against late payment in commercial transactions ("**Law 3/2004**"), regulates the term of payments in commercial transactions between undertakings (including professions) or between undertakings and certain transactions carried out by public

authorities. Law 3/2004 sets forth that payment shall take place, if not provided in the relevant agreement, within 30 days (which could be amended by the parties with an agreement in writing) from the delivery of the product or the provision of services, or from the date of approval of such delivery. Late payment interests accrue automatically from the expiration of the 30 day period (or the period agreed by the parties), *provided that* the counterparty does not comply with its payment obligations within such term. The default interest will be, if not provided in the relevant agreement, equal to the sum of the interest rate applied by the European Central Bank to its most recent main refinancing operation carried out before the first calendar day of that specific semester, plus at eight bps.

Factoring Regulation

Factoring agreements are not specifically regulated under Spanish law. They are usually structured as an assignment of receivables, whereby a portfolio of credits relating to one or more debtors is assigned and therefore civil and commercial legislation regulating the assignment of credits also applies to factoring activities. In particular, the provisions of articles 347 and 348 of the Spanish Commercial Code (the "**Spanish Commercial Code**"), and article 1526 and following of the Spanish Civil Code (the "**Spanish Civil Code**") are applicable. As such, factoring activities in Spain can generally be carried out by enterprises which do not necessarily have to qualify as financial institutions or credit entities.

Under Spanish law, the parties to a factoring agreement are not required to obtain the consent of the debtor whose commercial credits and associated rights are transferred under the agreement, as the debtor is not a party to such agreement. However, in order for the agreement to be enforceable against the debtor, notice of the assignment needs to be given to the debtor and if such notice is not given, the debtor will only be liable to repay the previous creditor. If the debtor is a public entity, such notice needs to be delivered by a certified means (the so called *notificación fehaciente*).

The limitation period (*plazo de prescripción*) for the creditor to bring a claim against the debtor whose receivables have been assigned (as well as to other contract claims) is, as per the general statute of limitations of personal remedies established in article 1964 of the Spanish Civil Code, five years, commencing on the date in which the performance of the relevant obligations could have been demanded. The five year limitation period of article 1964 of the Spanish Civil Code was introduced by Law 42/2015, of 5 October amending the Civil Procedure Act ("**Law 42/2015**"), which reduced the limitation period from fifteen years to five years. According to the Fifth Transitional Provision of Law 42/2015, when a personal remedy originated from an obligation whose performance could have been demanded prior to 7 October 2015, the previous fifteen year limitation period shall apply, but with a maximum limitation period of 7 October 2020 (i.e. five years after the entry into force of Law 42/2015). If, on the other hand, a personal remedy is originated from an obligation whose performance could only have been demanded after 7 October 2015, the current five year limitation period is applicable. The competent courts to resolve claims for payment deriving from the assignment of receivables are the Spanish Courts of First Instance, which are part of the civil jurisdictional order, in accordance with article 85.1 of the Spanish Judiciary Act (Law 6/1985, of 1 July on the Judiciary).As recourse and Non-Recourse Factoring is neither regulated under the Spanish Commercial Code nor under the Spanish Civil Code, the parties to a factoring agreement can freely negotiate its terms and conditions.

However, under Spanish law it is not possible to assign future credit rights or carry out a global assignment of receivables if the debtor is a Spanish public entity. The credit rights *vis-à-vis* a Spanish public entity will arise before completion of the assignment, which will take place on the approval by the Spanish public entity of the construction certificates or of the supply of goods or services.

Payment by Spanish Public Entities

Under the law on contracts of public entities, Spanish public entities must make payments for the supply of goods or services within thirty days of the date of approval of the delivery (such approval to occur within thirty days of the date of supply of goods or services). In the event that a Spanish public authority does not comply with the above timing for payment, it must pay to the counterparty default interest and compensation, as provided under Law 3/2004.

Pursuant to the abovementioned law, which approves the consolidated text of the Public Sector Contracts Act, for interest to accrue, the counterparty must file the invoice with the relevant administrative register within thirty days of the effective date of supply of the goods or services. Interest will only start accruing thirty days

after the date of delivery, or thirty days after the filing of the invoice in case that the counterparty fails to file the invoice with the administrative register within the required time.

In addition, under the Spanish Commercial Code it is not possible to charge interest on due and unpaid interest, although it is possible to capitalize liquid and unpaid interest which, as increased capital, will accrue additional interest.

Default by Public Entities

The amendment of 27 September 2011 to Article 135 of the Spanish Constitution introduces budgetary stability as a principle of conduct for all Spanish public entities. Specifically, it provides that the state and the autonomous regions must not incur structural deficits exceeding the thresholds set by the European Union.

The Organic Law on Budgetary Stability and Financial Sustainability ("**Law 2/2012**"), which develops Article 135 of the Spanish Constitution, defines "*budgetary stability*" as a situation of structural surplus or balance (for the state, autonomous regions, local authorities, and social security entities) and of financial balance (for other public sector entities) in terms of their financing capacity, and "*structural deficit*" as the periodically-adjusted deficit, net of exceptional circumstances and temporary measures.

Law 2/2012 is aimed at: (i) ensuring the financial sustainability of Spanish public entities (the state, autonomous regions and local authorities), including all public sector entities, (ii) reinforcing confidence in the stability of the Spanish economy; and (iii) strengthening the commitment of Spain to the European Union in terms of fiscal stability.

Law 2/2012 imposes three types of restrictions on Spanish public entities, subject to certain exceptions: (i) they must not incur a structural budgetary deficit, (ii) public spending growth of the state, autonomous regions and local authorities must be equal to or lower than the economy's nominal potential growth in the medium-term; and (iii) the public debt/GDP ratio must not exceed 60%. The restrictions mentioned in paragraphs (i) and (iii) may be disregarded in the event of a natural disaster, severe economic downturn or extraordinary emergency situations. In addition, with regards to the prohibition on incurring structural budgetary deficits, this does not apply to local authorities and social security entities, which must maintain a budgetary position at an equilibrium or surplus level. Moreover, should there be any structural reforms in Spain with long-term budgetary effects, Spanish public entities may incur structural deficit of 0.4 percent of Spanish GDP in aggregate, or any other percentage established by the European Union (such threshold to apply from 1 January 2020). The cap on public debt/GPD ratio of 60%, which will apply from 1 January 2020, will be distributed among Spanish public entities as follows: 44% to the state, 13% to the autonomous regions and 3% to local authorities.

Law 2/2012 provides for preventive, corrective and coercive measures to be taken in case of deviation from the fulfillment of the budgetary stability or public debt objectives.

As a preventive measure, Spanish public entities must monitor their public spending and the risks and costs associated with the granting of guarantees by them to secure credit transactions of public and/or private individuals. In the event that the debt incurred exceeds 95% of the thresholds permitted by law from time to time, the only debt transactions which will be permitted will be those which are treasury-related. In addition, the Spanish government will warn the autonomous regions or local authorities if it identifies a risk in their budgetary stability, debt or spending cap. Public entities must take any necessary measures to address the issue within a month of such warning. Likewise, in the event that the average payment period to suppliers of an autonomous region exceeds the term permitted by law (*i.e.* thirty days, as described in the "**Payment by Spanish Public Entities**" section above) for two consecutive months, the Spanish Ministry of Finance and Public Entities will warn the autonomous region, indicating the amount that the autonomous region must pay to the suppliers and the measures it must take to reduce its average payment period to suppliers. A similar procedure applies to local authorities.

If the above preventive measures are not adopted, the following corrective measures, among others, will apply: (i) all debt transactions (and the granting of guarantees to secure credit transactions) of the autonomous region and all long-term transactions of the local authority will require the state's or the autonomous region's authorization, as applicable, (ii) the defaulting Spanish public entity must draw up a financial economic plan for the correction of the default within the current year and the following year, (iii) the Spanish Ministry of

Finance and Public Entities will have the power to draft a report, on a quarterly basis, in order to monitor the implementation of the measures established in the financial economic plan. The Spanish Ministry of Finance and Public Entities will require the defaulting public entity to remedy any deviation from the financial economic plan in the implementation of such measures. If the Spanish Ministry of Finance and Public Entities verifies in the following quarterly report that the measures set out in the financial economic plan have not been complied with and that this may lead to non-compliance with the budgetary stability objective, the coercive measures described below may be imposed. With regards to the average payment period to suppliers of an autonomous region, if this exceeds the term permitted by law for two consecutive months, the Spanish Ministry of Finance and Public Entities will retain and pay the relevant amounts directly to the suppliers.

In the event of non-compliance with the financial economic plan, or if the average payment period to suppliers of an autonomous region exceeds the term permitted by law for two consecutive months, the defaulting public entity must take a resolution on the unavailability of credits and retain credits within 15 days in order to ensure compliance with the budgetary stability objective and make, if so required by the Ministry of Finance and Public Entities, a remunerated deposit with the Bank of Spain for an amount of 0.2% of its nominal GDP. If such measures are not adopted, the Spanish government may appoint a team of experts to assess the economic-budgetary position of the defaulting public entity and to draft a report on the measures to be complied with by the defaulting public entity.

If the autonomous region does not resolve on the unavailability of credits, make the payment to the Bank of Spain, or implement the measures set out by the team of experts, the Spanish government may ask the president of the autonomous region to intervene. Alternatively, the Spanish government, with the approval of the absolute majority of the Senate, will adopt any measures necessary to ensure the forcible execution by the autonomous region. A similar procedure will apply to local authorities and in this case, the persistent non-compliance by the local authority may lead to the dissolution of the local government bodies.

Law 2/2012 provides that the state must not assume the debt commitments of autonomous regions or local authorities, and in turn autonomous regions must not assume the debt commitments of local authorities, other than any financial guarantees which are mutually provided to secure the joint execution of specific projects.

Information Obligations by Public Entities

Spanish public entities must disclose their average payment period to suppliers and have a liquidity plan ensuring compliance with regulations on default or delay in payment.

Portugal

Factoring regulation

Factoring (or financial assignment) activities in Portugal are mainly regulated by the Law Decree No. 171 of 18 July 1995, as amended ("**DL 171/95**") and the legal framework of credit institutions and financial companies, approved by the Law Decree No. 298 of 31 December 1992, as amended ("*Regime Geral das Instituições de Crédito e das Sociedades Financeiras*") ("**RGICSF**"), which, among other provisions, establishes which entities are authorized to pursue factoring activities. As factoring activity has the legal nature of an assignment of credits, the provisions of Article 577 and following of the Portuguese Civil Code are thus applicable.

DL 171/95 provides that financial assignment consists in "*the acquisition of short-term credits, derived from the sale of goods or the provision of services, in domestic and foreign markets*" and also includes ancillary activities such as providing credit risk analysis or legal, commercial or accounting support in connection with the management of assigned credits.

Under a factoring agreement, a remunerated assignment of credits is made by one party (the "**assignor**") to an entity duly authorized to perform the factoring activity (the "**factor/assignee**"), such as credits due from a third party (the debtor of the assigned credits). Under DL 171/95, factoring agreements must: (i) be in writing; (ii) set out the terms of the relationship between the factor/assignee and the assignor; (iii) be supported by invoices or equivalent documents; and (iv) provide for the payment of credits to be made to the assignor on certain conditions. Otherwise, the parties to a factoring agreement can freely negotiate its terms and conditions.

Receivables are purchased through an authenticated private act pursuant to DL 171/95 and the purchase is notified in accordance with Article 583 of the Portuguese Civil Code. Neither an express acceptance by the debtor is necessary nor a denial is requested.

Receivables are mainly purchased together with the "*numero de compromiso*", i.e. a certification of the existence of the receivable.

We point out that:

a. purchases without the "*numero de compromiso*" have been executed on assignor of a primary standing;

b. a clause whereby the assignor guarantees assigned documents' conformity to the law regulating the "*numeros de compromiso*" (Law of 22 February 2012) is generally included in the agreements entered into with the Portuguese customers.

As of 31 December 2016, out of the total amount of receivables purchased, an amount equal to €20.4 million (15%) was purchased without "*numero de compromiso*".

For the purpose of interrupting the limitation period of the purchased receivables solicitations are periodically sent and credit collection management procedures provide for the filing of legal actions where certain thresholds of delay in payment to be reached.

Limitation period in Portugal lasts 20 years as regard the capital and 5 years as regard the notes (documents issued by the Issuer in change for the late payment executed by the debtor) and will be interrupted by a notice of injunction (*Injunção*). The notice procedure, pursuant to Portuguese law, is carried out through an national IT platform of the Portuguese Ministry of Justice.

Enforcement

The steps which the factor/assignee will need to take to enforce a credit will depend on whether such claim relates to the invoices for the acquired receivables (due by the debtor directly to the factor/assignee) or to the assignment of receivables (due by the debtor to the assignor which shall subsequently transfer such receivables to the factor/assignee). In the former case, it will be necessary to file an injunction or a claim against the debtor at court. In the latter case (for example, where the assignor recedes from the agreement or fails to transfer to the factor/assignee a payment received from the debtor), the terms and conditions of the assignment agreement will determine whether or not a claim needs to be filed at court. Article 703, No. 1 of the Portuguese Code of Civil Procedure provides that if the agreement was executed before, and authenticated (*i.e.* the legitimacy of the parties and the content of the agreement were verified) by, a notary, a lawyer or any other competent authority empowered by law to authenticate, the debt may be enforced by the relevant court without first having to undertake a declaratory process, as such authentication renders the agreement automatically enforceable. If, on the other hand, the agreement was certified (*i.e.* the legitimacy of the parties was verified) by a lawyer following its execution, it will be necessary to file a claim at court, as the agreement will not be automatically enforceable.

Funding of the Portuguese National Health Service

The receivables acquired by us are owed by public enterprise hospitals (EPE hospitals) and joint stock company hospitals (SPA hospitals), which form part of the Portuguese national health service. Under articles ("*bases*") 33 and 34 of the Basic Law on Health ("***Lei de Bases da Saúde***"), the Portuguese National Health Service is financed by the Portuguese State, the income generated from its activities and the fees received for its services ("*taxas moderadoras*"). Each EPE hospital and SPA hospital will enter into a contract with the relevant regional entity which provides for state funding.

Restrictions on the assumption of debt by public entities

The Law on commitments of and late payments by public entities, imposes certain restrictions on the assumption of debts by public entities. For example, a public entity may not assume a debt for an amount exceeding the value of its available funds, and the validity of the debt arising from a commitment depends on the issue of a valid commitment ("*compromiso*") number. With effect from 22 February 2012, if a commitment ("*compromiso*") number has not been granted, the relevant obligation or agreement will not be

executable and it will not be possible to make a claim for payment of the debt against the relevant public entity. In addition, if the debt is equal to or exceeds €350,000, the prior approval of the Portuguese Court of Auditors ("*Tribunal de Contas*") must be granted.

Insolvency of the entities of the Portuguese National Health Service

The Portuguese Code on Insolvency and Companies Recovery (CIRE), as amended, does not apply to public entities, such as EPE hospitals and SPA hospitals. EPE hospitals and SPA hospitals are instead subject to article 35 of the Legal Framework of the Corporate Public Sector ("*Regime Jurídico do Sector Empresarial do Estado*"), as amended, pursuant to which the insolvency procedures set out in the relevant legislative decree will apply to EPE hospitals (*i.e.* the legislative decree that is enacted upon their insolvency) and the winding-up and settlement procedures set out in the Portuguese Company Act will instead apply to SPA hospitals, if no specific legislative decree is enacted upon their insolvency.

As EPE hospitals and SPA hospitals are independent legal entities, on their insolvency the State will have no liability towards their creditors. However, under article 35, in the event that an EPE hospital or a SPA hospital records negative equity for three consecutive financial years, the shareholder (*i.e.* the State) shall intervene within a 90-day period following the approval of the financial statements of the third financial year, failing, pursuant to which the relevant entity shall be wound-up.

Poland

Factoring Regulation

Factoring agreements are not specifically regulated under Polish law. They are usually structured as an assignment of receivables, whereby claims under agreements are assigned in favor of the factor or as subrogation agreements (in case of reverse factoring) and therefore the provisions of Polish Civil Code will apply. Consequently, factoring activities in Poland can generally be carried out by enterprises which do not necessarily have to qualify as financial institutions or credit entities.

Under Polish law, in absence of a specific statutory or contractual provision to the contrary, the parties to a factoring agreement are not required to obtain the consent of the debtor whose debts are transferred under the agreement, as the debtor is not a party to such agreement. However, in order for the agreement to be enforceable against the debtor, notice of the assignment needs to be given to the debtor and if such notice is not given, the debtor will only be liable to repay the previous creditor.

As neither recourse factoring nor non-recourse factoring is regulated under Polish legislation, the parties to a factoring agreement can freely negotiate its terms and conditions.

While under Polish law it is possible to assign future claims it is not possible to carry out a global assignment of receivables.

Transfer of receivables under the Act on Healthcare Activities

The issue of assignment of receivables is regulated by the articles 509-518 of Polish Civil Code. The basic provision states that creditor may, without the debtor's consent, transfer a receivable to a third party (assignment) unless it would be contrary to statute, to a contractual reservation (*pactum de non cedendo*) or to the nature of the obligation. Sale of receivables shall be invalid if it is contrary to the statute. In case of contractual reservations prohibiting the assignment (*pactum de non cedendo*), an additional consent from the debtor will be required under the pain of nullity. All rights connected with a receivable, in particular a claim for the outstanding interest passed along with it to the acquiring party. In a case where a receivable has been evidenced in writing, the assignment of this receivable shall also be evidenced in writing. Additionally, transferring receivables secured by mortgage or registered pledge requires an entry in a land and mortgage register or pledge register respectively. Payment of additional court fees would also be an issue.

There is no requirement to notify the debtor about the assignment; however, making payment to the former creditor is effective towards the acquiring party until the creditor notifies the debtor of the assignment, unless the debtor knew of the assignment at the moment of the performance.

The general rules on the limitation of claims are regulated in the Articles 117-125 of the Polish Civil Code the "**PCC**"). In general, the period of limitation (prescription period) amounts to ten years, and for periodical

payment claims as well as for claims connected with conducting economic activity-it should be three years from the day when the claim became mature, unless specific provision provides otherwise (Article 118 of the PCC). According to the Article 120 § 1 of the PCC, the course of limitation commences on the day when the claim became mature or if the maturity of the claim depends on undertaking a specified act by the entitled person, the course of the time limit commences on the day when the claim would have become mature if the entitled person undertook the act at the earliest possible opportunity. Pursuant to the Article 123 of the PCC, the running of the period of limitation is interrupted by: 1) any act before the court or other authority entitled to hear cases or enforce claims; 2) by the acknowledgement of the claim by the person against whom the claim is made; or 3) by the initiation of mediation. Following each interruption of limitation, it commences to run afresh. In case of the court proceedings the limitation shall not commence to run afresh, until the proceeding is over (Article 124 of the PCC). Periods of limitation may not be shortened or prolonged by a juridical act (Article 119 of the PCC).

In accordance with the Article 117 § 2 of the PCC, following the lapse of the period of limitation, the one against whom a claim is to be pursued may avoid the duty to satisfy it, unless he waives his right to use the defense of limitation.

In practice, the prescription does not make the claim expire-the creditor may continue claiming the prescribed receivable, but the debtor may refer to the statute of limitations and apply for the dismissal of a claim due to its limitation. If this is the case, the court should state that the claim exists but cannot be executed due to the lapse of the period of limitation. After the lapse of the period of limitation, the claim exists in the form of natural claim and may only be fulfilled by the voluntary will of the debtor.

The assignment of receivables by the sellers to Magellan, which is performed according to the articles of the Polish Civil Code as set out above, is notified to the transferred debtor by the seller on the day of executing the agreement on the assignment of receivables. Such notification of the assignment to the transferred debtor is not required by law for its effectiveness, however the seller is under an obligation to transfer any receivables received from the debtor after the execution of such agreement. Pursuant to the agreement, the seller undertakes to deliver to Magellan all of the documents confirming the existence of the receivables and shall be responsible for any claims towards the debtor if the claim cannot be satisfied in part or in full due to the improper performance by the seller of such assignment agreement or the agreement between the seller and the debtor.

Certain types of receivables may be subject to additional requirements. Pursuant to Article 54 sec. 5 of the Act on Healthcare Activities, any change of creditor for an independent public health provider or organization (Samodzielny publiczny zakład opieki zdrowotnej), such as a hospital, must be approved by its founding body. Approval is granted after the founding body has assured the continued provision of healthcare services, following an analysis of the healthcare provider’s financials and results from the previous year. Approval is also subject to a consultation with the director of the public health organization. Any breach of these requirements shall result in any legal actions involving the healthcare organization being deemed void.

The standard process related to receivables recovery is regulated the Polish Civil Procedure Code. This includes simplified methods of debt collection as well as traditional in-court procedure. The same act regulates the execution of receivables. The basis for execution is an enforceable title. An enforceable title is an enforcement order with a writ of execution granted by the court. An enforcement order could be for instance a non-appealable or immediately enforceable court decision as well as a settlement reached before the court or a non-appealable or immediately enforceable ruling of a court clerk.

Moreover, the recovery of receivables may raise the question concerning personal data protection. However, due to the Polish Personal Protection Act personal data may be processed if it is necessary to achieve legitimate purposes such as pursuit of claims associated with economic activities.

Slovakia

Factoring, forfaiting and financial leasing regulation

The activities of factoring, forfaiting and financial leasing qualify as so called “free trade licenses” within the meaning of the Trade Licensing Act, as amended.

However, the National Bank of Slovakia (*Národná banka Slovenska*) (the "**NBS**") does conduct some regulatory oversight in respect of the factoring, forfaiting and financial leasing market, by virtue of the NBS Act (the "**NBS Act**"). The NBS Act requires that natural persons, legal entities and public authorities provide information, reports, statements and other material and explanation to the NBS if these are necessary for the NBS to carry out its tasks laid down in the NBS Act and other legal regulations. Businesses carrying out factoring, forfaiting and financial leasing within the scope of their business activities may be required to provide quarterly financial statements to the NBS. The template for the financial information to be provided to the NBS and additional instructions regarding the requirement are included in the annex of the decree. This requirement only applies to businesses which are requested in writing by the NBS to provide such statements. Failure to comply with this obligation may result in the NBS applying remedies and measures to resolve non-compliance and enforce a monetary penalty of up to €30,000 (or up to €60,000 in cases of repeated or serious non-compliance). Application of these measures will depend on the severity, extent, duration, consequences and nature of non-compliance.

Factoring agreements are not specifically regulated under Slovak law. They are usually structured as an assignment of receivables, whereby claims under agreements are assigned in favor of the factor and therefore the provisions of the Slovak Civil Code will apply. Under Slovak law, absent a specific statutory or contractual provision to the contrary, the parties to a factoring agreement are not required to obtain the consent of the debtor whose debts are transferred under the agreement, and the debtor is not a party to such agreement. However, in order for the agreement to be enforceable against the debtor, notice of the assignment needs to be given to the debtor and if such notice is not given, the debtor will only be liable to repay the previous creditor.

Restrictions on enforcement proceedings

As a result of Section 61c of the Slovak Enforcement Code, some types of state-owned property (e.g. certain real property, the state budget income or state-owned securities) have express immunity from enforcement proceedings, whereas other state-owned property, not expressly excluded from enforcement by the Slovak Enforcement Code, may be excluded on the application of the state, if the state successfully claims the property is needed for its tasks or is needed due to reasons of public interest. Similarly, Section 8 (10) of the Act on the budget rules of public authorities stipulates that funds provided from the state budget or the budget of the European Union, as well as the movable or fixed assets procured for such funds are not subject to enforcement under the Slovak Enforcement Code. This effectively means that certain property may not be included in enforcement proceedings and used for recovery of debt. Finally, in accordance with Section 56 (4) of the Slovak Enforcement Code, even in situations when certain health care providers are technically not immune from enforcement proceedings, they may apply for a postponement of the enforcement, if the immediate enforcement could prejudice the provision and/or securing of health care.

Company in crisis

As of 1 January 2016, the legal concept of a company in crisis was added to the Commercial Code, as amended. A company is considered to be in crisis if it is insolvent, or it is at risk of becoming insolvent. Pursuant to the Bankruptcy Act of Slovakia, a company is considered to be insolvent if (i) it is incapable to repay, within 30 days of the repayment term, at least two monetary liabilities to more than one creditor, or (ii) it has an obligation to keep accounts, it has more than one creditor and its liabilities are higher than its assets. A company is at risk of becoming insolvent if the ratio of its equity to its liabilities is less than 6 to 100 for the year 2017 (the ratio will gradually increase to 8 to 100 in 2018). A loan or similar funding provided to a company in crisis will be considered to be funding substituting its own funds if it is provided by (i) a member of the statutory body of the company, employee in the direct management control of the statutory body, authorized agent, branch manager, a member of the supervisory board, (ii) a person who has a direct or indirect share of at least 5% of the registered capital of the company or voting rights of the company or has the possibility to exact influence on the management of the company in a manner comparable to the influence corresponding to such ownership share, (iii) a silent partner, (iv) a related party of the persons under aforementioned points (i)-(iii), or (v) a person acting on behalf of the persons under aforementioned points (i)-(iii). Such funding substituting the own funds of a company may not be returned while the company is in crisis or if the company would come into crisis as a result.

TAXATION

The statements herein regarding taxation are based on the laws in force in Italy as at the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following overview does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to subscribe for, purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules. This overview will not be updated by the Issuer after the Issue Date to reflect changes in laws after the Issue Date and, if such a change occurs, the information in this description could become invalid.

Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Notes.

Tax treatment of Interest

Italian Legislative Decree no. 239 of 1 April 1996, as subsequently amended ("**Legislative Decree no. 239/1996**"), provides for the applicable regime with respect to the tax treatment of interest, premium and other similar income, including the difference between the redemption amount and the issue price (hereinafter, "**Interest**") deriving from Notes falling within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) notes issued, *inter alia*, by Italian banks.

For these purposes, securities similar to bonds (*titoli similari alle obbligazioni*) are securities that incorporate an unconditional obligation of the issuer to pay at maturity an amount not lower than their nominal value, with or without the payment of periodic interest, and do not give any right to directly or indirectly participate in the management of the issuer or to the business in connection to which the securities were issued, nor to control the same.

The tax regime set forth by Legislative Decree no. 239/1996 also applies to interest, premium and other income from regulatory capital financial instruments complying with EU and Italian regulatory principles, issued by, *inter alia*, Italian banks, other than shares and assimilated instruments.

Italian resident Noteholders

Noteholders not engaged in an entrepreneurial activity

Where an Italian resident Noteholder is (i) an individual (unless he has opted for the application of the *risparmio gestito regime* – see under "*Certain Italian tax considerations on Capital gains on the Notes*" below – where applicable); (ii) a partnership (other than *società in nome collettivo*, *società in accomandita semplice* or a similar partnership), a *de facto* partnership not carrying out commercial activities and a professional association; (iii) a public and private entity (other than a company) and trust not carrying out commercial activities (excluding Investment Funds "*Organismi di Investimento Collettivo del Risparmio*"); or (iv) an investor exempt from Italian corporate income taxation, Interest relating to the Notes, accrued during the relevant holding period, are subject to an *imposta sostitutiva*, levied at the rate of 26 per cent. The *imposta sostitutiva* may not be recovered as a deduction from the income tax due.

Noteholders engaged in an entrepreneurial activity

If the Noteholders described under (i) or (iii) above are engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* applies as a provisional tax and may be deducted from the income tax due.

Where an Italian resident Noteholder is a company or similar commercial entity (including limited partnerships qualified as *società in nome collettivo* or *società in accomandita semplice* and private and public institutions carrying out commercial activities and holding the Notes in connection with this kind of activities) or a permanent establishment in Italy, to which the Notes are effectively connected, of a non-Italian resident entity and the Notes are deposited with an authorised intermediary, Interest from the Notes will not be subject to *imposta sostitutiva*, but must be included in the relevant Noteholder's income tax return and are therefore subject to ordinary Italian corporate taxation (and, in certain circumstances, depending on the "status" of the Noteholder, also to IRAP – the regional tax on productive activities).

S.I.I.Q., Real Estate Funds and Real Estate SICAFs

Where the Noteholder is an Italian S.I.I.Q. (*società di investimento immobiliare quotata*), the ordinary tax regime of Italian companies will apply to any Interest from the Notes; thus, if the Notes are deposited with an authorised Italian intermediary Interest from the Notes will not be subject to *imposta sostitutiva* and will be included in the taxable income of the Noteholder subject to ordinary Italian corporate taxation.

Payments of Interests relating to the Notes, deposited with an authorised intermediary, made to Italian real estate investment funds established pursuant to article 37 of Legislative Decree no. 58 of 24 February 1998 ("**Legislative Decree no. 58/1998**"), or pursuant to article 14-*bis* of Law no. 86 of 25 January 1994 set up starting from 26 September 2001, as well as real estate funds incorporated before 26 September 2001, the managing company of which has so requested by 25 November 2001 (the "**Italian Real Estate Fund**"), are subject neither to *imposta sostitutiva* nor to any other income tax in the hands of the Real Estate Investment Fund. A withholding tax may apply in certain circumstances at the rate of up to 26 per cent. on distributions made by Italian Real Estate Funds. In certain cases, a tax transparency regime may apply in respect of certain categories of investors in the Italian Real Estate Fund owning more than 5 per cent. of the fund's units.

Pursuant to article 9 of Legislative Decree no. 44 of 4 March 2014, the same regime applicable to Real Estate Funds also applies to *società di investimento a capitale fisso* ruled by Legislative Decree no. 58/1998 exclusively or primarily investing in real estate in the measures provided under the applicable implementing regulations ("**Real Estate SICAF**").

Funds, SICAVs and SICAFs (*other than Real Estate SICAFs*)

Where an Italian resident Noteholder is an Italian open-ended or a closed-ended investment fund ("**Fund**") or a *società d'investimento a capitale variabile* ("**SICAV**") or a *società di investimento a capitale fisso* not exclusively or primarily investing in real estate ("**SICAF**") and the Notes are deposited with an authorised intermediary, Interest relating to the Notes will not subject to *imposta sostitutiva*. A withholding tax may apply in certain circumstances at the rate of up to 26 per cent. on distributions made by the Fund, the SICAV or the SICAF to certain categories of investors upon redemption or disposal of the units or the shares.

Pension Funds

Where an Italian resident Noteholder is a pension fund (subject to the regime provided for by article 17 of Italian Legislative Decree no. 252 of 5 December 2005, as subsequently amended, "**Italian Pension Fund**") and the Notes are deposited with an authorised intermediary, Interest relating to the Notes and accrued during the holding period will not be subject to *imposta sostitutiva*, but must be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to an 20 per cent. substitute tax.

Enforcement of the imposta sostitutiva

Pursuant to Legislative Decree no. 239/1996, *imposta sostitutiva* is applied by banks, *società di intermediazione mobiliare* ("**SIMs**"), fiduciary companies, *società di gestione del risparmio* ("**SGRs**"), stockbrokers and other entities identified by a decree of the Ministry of Finance (each an "**Intermediary**"). An Intermediary must (i) be resident in Italy or a permanent establishment in Italy of a non-Italian resident financial intermediary; and (ii) intervene, in any way, in the collection of Interest or in the transfer of the Notes. For the purpose of the application of the *imposta sostitutiva*, a transfer of Notes includes any assignment or other act, either with or without consideration, which results in a change in the ownership of the relevant Notes or a transfer of the Notes to another deposit or account held with the same or another Intermediary.

Where the Notes are not deposited with an Intermediary, the *imposta sostitutiva* is applied and withheld by the intermediary paying Interest to a Noteholder (or by the Issuer, should the income be paid directly by the latter).

Non-Italian resident Noteholders

Where the Noteholder is a non-Italian resident without a permanent establishment in Italy to which the Notes are effectively connected, an exemption from the *imposta sostitutiva* applies, *provided that* the non-Italian resident beneficial owner is either (i) resident, for tax purposes, in a country which allows for a satisfactory

exchange of information with Italy (the "**White List States**"); (ii) an international body or entity set up in accordance with international agreements which has entered into force in Italy; (iii) a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (iv) an institutional investor which is incorporated in a White List State, even if it is not subject to income tax therein. White List States are currently identified by Ministerial Decree of 4 September 1996, as amended by Ministerial Decree 9 August 2016.

In order to ensure gross payment, non-Italian resident Noteholders must be the beneficial owners of the payments of Interest and (i) deposit, directly or indirectly, the Notes with a resident bank or SIM or a permanent establishment in Italy of a non-Italian resident bank or a SIM or with a non-Italian resident entity or company participating in a centralised securities management system which is in contact, via computer, with the Ministry of Economy and Finance; and (ii) file with the relevant depository, prior to or concurrently with the deposit of the Notes, a statement of the relevant Noteholder, which remains valid until withdrawn or revoked and in which the Noteholder declares itself to be eligible to benefit from the applicable exemption from *imposta sostitutiva*. Such statement, which is requested neither for the international bodies or entities set up in accordance with international agreements which have entered into force in Italy, nor in the case of foreign Central Banks or entities which manage, *inter alia*, the official reserves of a foreign State, must comply with the requirements set forth by the Ministerial Decree dated 12 December 2001. In the case of institutional investors which do not possess the status of taxpayers in their own country, the institutional investor is considered the beneficial owner and the statement under (ii) above shall be issued by the relevant management body.

The *imposta sostitutiva* will be applicable at the rate of 26 per cent. to be reduced according to the applicable double tax treaty, if any, to Interest paid to Noteholders which are resident, for tax purposes, in countries which do not allow for a satisfactory exchange of information with Italy or for which the above-mentioned provisions are not met.

Certain Italian tax considerations on Capital gains on the Notes

Italian resident Noteholders

Noteholders not engaged in an entrepreneurial activity

Where an Italian resident Noteholder is an individual holding the Notes not in connection with an entrepreneurial activity and certain other persons (such as a non-commercial partnership and a non-commercial private or public institution), any capital gain realised by such Noteholder from the sale or redemption of the Notes would be subject to an *imposta sostitutiva*, levied at the current rate of 26 per cent. pursuant to Legislative Decree no. 461 of 21 November 1997 ("**Legislative Decree no. 461/1997**").

In respect of the application of the *imposta sostitutiva*, taxpayers may opt for one of the three regimes described below:

(i) under the tax declaration regime (*regime della dichiarazione*), which is the standard regime for Italian resident individuals not engaged in entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any incurred capital loss, realised by the Italian resident individual Noteholder holding Notes not in connection with an entrepreneurial activity pursuant to all sales or redemptions of the Notes carried out during any given tax year. Italian resident individuals holding Notes not in connection with an entrepreneurial activity must indicate the overall capital gains realised in any tax year, net of any relevant incurred capital loss, in the annual tax return and pay *imposta sostitutiva* on such gains together with any balance of income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains realised in any of the four succeeding tax years. Pursuant to Law Decree no. 66 of 24 April 2014 ("**Law Decree no. 66/2014**") capital losses may be carried forward to be offset against capital gains of the same nature realised after 30 June 2014 for an overall amount of: (a) 48.08 per cent. if realised before 1 January 2012; (b) 76.92 per cent. of the capital losses if realised from 1 January 2012 to 30 June 2014;

(ii) as an alternative to the tax declaration regime, Italian resident individual Noteholders holding the Notes not in connection with an entrepreneurial activity may elect to pay the *imposta sostitutiva*

separately on capital gains realised on each sale or redemption of the Notes (the *risparmio amministrato regime*). Such separate taxation of capital gains is allowed subject to (a) the Notes being deposited with Italian banks, SIMs or certain authorised financial intermediaries; and (b) an express election for the *risparmio amministrato* regime being made punctually in writing by the relevant Noteholder. The depository is responsible for accounting for *imposta sostitutiva* in respect of capital gains realised on each sale or redemption of the Notes, net of any incurred capital loss, and is required to pay the relevant amount to the Italian tax authorities on behalf of the taxpayer, deducting a corresponding amount from the proceeds to be credited to the Noteholder or using funds provided by the Noteholder for this purpose. Under the *risparmio amministrato* regime, where a sale or redemption of the Notes results in a capital loss, such loss may be deducted from capital gains subsequently realised, within the same securities management, in the same tax year or in the following tax years up to the fourth. Pursuant to Law Decree no. 66/2014 capital losses may be carried forward to be offset against capital gains of the same nature realised after 30 June 2014 for an overall amount of: (a) 48.08 per cent. of the relevant capital losses realised before 1 January 2012; (b) 76.92 per cent. of the capital losses realised from 1 January 2012 to 30 June 2014. Under the *risparmio amministrato* regime, the Noteholder is not required to declare the capital gain in its annual tax return and the Noteholder remains anonymous. If the Notes are included in a "long term investment plan" (*piano individuale di risparmio a lungo termine – "PIR"*), as defined and ruled by article 1, paragraphs 100-114, Law no. 232/2016 ("Financial bill 2017"), capital income (such as interest, premiums and other similar income) and other financial income (such as capital gains) are eligible for a tax exemption, *provided that* all the conditions set forth by the Financial bill 2017 are met;

(iii) any capital gains realised by Italian resident individuals holding the Notes not in connection with an entrepreneurial activity who have entrusted the management of their financial assets, including the Notes, to an authorised intermediary and have opted for the so-called "*risparmio gestito*" regime will be included in the computation of the annual increase in value of the managed assets accrued, even if not realised, at year end, subject to a 26 per cent. substitute tax to be paid by the managing authorised intermediary. Under the *risparmio gestito* regime, any depreciation of the managed assets accrued at year-end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Under the *risparmio gestito* regime, the Noteholder is not required to declare the capital gains realised in its annual tax return. According to Law Decree no. 66/2014, decreases in value accrued on the investment portfolio may be carried forward to be offset against increase in value accrued after 30 June 2014 for an overall amount of: (a) 48.08 per cent. of the decreases accrued before 1 January 2012; (b) 76.92 per cent. of the decreased accrued from 1 January 2012 to 30 June 2014. Under the *risparmio gestito* regime, the Noteholder is not required to declare the capital gain realised in its annual tax return.

Noteholders engaged in an entrepreneurial activity

Any gain obtained from the sale or redemption of the Notes would be treated as part of the taxable income (and, in certain circumstances, depending on the "status" of the Noteholder, also as part of the net value of production for IRAP purposes) if realised by (i) Italian resident companies; (ii) Italian resident commercial partnerships; (iii) permanent establishments in Italy of foreign corporations to which the Notes are effectively connected; or (iv) Italian resident individuals carrying out a commercial activity, as to any capital gains realised within the scope of the commercial activity carried out.

S.I.I.Q., Real Estate Funds and Real Estate SICAFs

Any capital gain realised by an Italian S.I.I.Q. is taxable pursuant to the ordinary regime of Italian resident companies and thus will be treated as part of the taxable income of the Noteholder to be subject to Italian corporate taxation.

Any capital gain realised by a Noteholder which is an Italian Real Estate Fund or a Real Estate SICAF concurs to the year-end appreciation of the managed assets, which is exempt from any income tax according to the real estate investment fund tax treatment described above. A withholding tax may apply in certain circumstances at the rate of 26 per cent. on income realized by the participants on distributions or redemption of the units or the shares (where the item of income realised by the participants may include the capital gains on the Notes). As mentioned, in certain cases a tax transparency regime may apply in respect of certain

categories of investors in the Italian Real Estate Fund and Real Estate SICAF owning more than 5 per cent. of the units or the shares.

Funds, SICAVs and SICAFs (*other than Real Estate SICAFs*)

Capital gains realised by a Noteholder which is a Fund, a SICAV or a SICAF will not be subject neither to substitute tax nor to any other income tax in the hands of the Fund, the SICAV or the SICAF. A withholding tax may apply in certain circumstances at the rate of 26 per cent. on distributions made by the Fund, the SICAV or the SICAF to certain categories of investors.

Pension Funds

Any capital gain realised by a Noteholder which is an Italian Pension Fund will be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to the 20 per cent. substitute tax.

Non-Italian resident Noteholders

The 26 per cent. final *imposta sostitutiva* on capital gains may be payable on capital gains realized upon sale for consideration or redemption of the Notes by non-Italian resident individuals or entities without a permanent establishment in Italy to which the Notes are effectively connected, if the Notes are held in Italy.

However, any capital gains realized by non-Italian residents without a permanent establishment in Italy to which the Notes are effectively connected through the sale for consideration or redemption of the Notes are exempt from taxation in Italy if the Notes are traded on a regulated market in Italy or abroad and, in certain cases, subject to timely filing of required documentation (in particular, a self-declaration not to be resident in Italy for tax purposes), even if the Notes are held in Italy and regardless of the provisions set forth by any applicable double tax treaty.

In case the Notes are not traded on a regulated market in Italy or abroad, pursuant to the provisions of article 5 of Legislative Decree no. 461/1997, non-Italian resident beneficial owners of the Notes without a permanent establishment in Italy to which the Notes are effectively connected are exempt from *imposta sostitutiva* in Italy on any capital gain realized, upon sale for consideration or redemption of the Notes, if they are resident, for tax purposes, in a White List State as defined above.

In such case, if non-Italian residents without a permanent establishment in Italy to which the Notes are effectively connected hold the Notes with an Italian authorised financial intermediary, in order to benefit from exemption from Italian taxation on capital gains, such non-Italian residents may be required to timely file with the authorised financial intermediary an appropriate self-declaration stating they are resident for tax purposes in a White List State.

Exemption from Italian *imposta sostitutiva* on capital gains realised upon disposal of Notes not listed on a regulated market also applies to non-Italian residents who are (i) international bodies and organisations established in accordance with international agreements ratified in Italy; (ii) certain foreign institutional investors established in White List States, even if not subject to income tax therein; and (iii) Central Banks or other entities, managing also official State reserves.

In any event, non-Italian resident individuals or entities without a permanent establishment in Italy to which the Notes are effectively connected that may benefit from a double taxation treaty with Italy, providing that capital gains realised upon sale or redemption of Notes are to be taxed only in the country of tax residence of the recipient, will not be subject to *imposta sostitutiva* in Italy on any capital gains realised upon sale for consideration or redemption of Notes.

In such case, if non-Italian residents without a permanent establishment in Italy to which the Notes are effectively connected hold the Notes with an Italian authorised financial intermediary, in order to benefit from exemption from Italian taxation on capital gains, such non-Italian residents may be required to timely file, with the authorised financial intermediary, appropriate documents which include, *inter alia*, a certificate of residence issued by the competent tax authorities of the country of residence of the non-Italian residents.

The *risparmio amministrato* regime is the ordinary regime automatically applicable to non-resident persons and entities in relation to Notes deposited for safekeeping or administration at Italian banks, SIMs and other eligible entities, but non-resident Noteholders retain the right to waive this regime. Such waiver may also be

exercised by non-resident intermediaries in respect of safekeeping, administration and term deposit accounts held in their names in which third parties' financial assets are held.

Italian inheritance and gift tax

Under Law Decree no. 262 of 3 October 2006 (converted with amendments into Law no. 286 of 24 November 2006), as subsequently amended, transfers of any valuable asset (including shares, bonds or other securities) as a result of death or gift or gratuities are taxed as follows:

(a) transfers in favour of spouses, direct ascendants or descendants are subject to an inheritance and gift tax applied at a rate of 4 per cent. on the entire value of the inheritance or the gift exceeding Euro l,000,000 for each beneficiary;

(b) transfers in favour of relatives within the fourth degree, ascendants or descendants' relatives in law or other relatives in law within the third degree are subject to an inheritance and gift tax at a rate of 6 per cent. on the entire value of the inheritance or the gift. Transfers in favour of brothers/sisters are subject to the 6 per cent. inheritance and gift tax on the entire value of the inheritance or the gift exceeding Euro 100,000 for each beneficiary; and

(c) any other transfer is, in principle, subject to an inheritance and gift tax at a rate of 8 per cent. on the entire value of the inheritance or the gift.

If the transfer is made in favour of persons with severe disabilities, the tax applies on the value exceeding Euro 1,500,000 at the rates shown above, depending on the type of relationship existing between the deceased or donor and the beneficiary.

Pursuant to article 6 Law no. 112/2016 ("*Legge sul Dopo di Noi*"), asset or other rights (a) contributed to a trust, or (b) subject to a scope restriction ex article 2645-*ter* Italian Civil Code, or (c) contributed to a special fund ruled by *contratto di affidamento fiduciario*, in favor of persons with severe disabilities, are exempt from inheritance and gift tax. Upon the death of the person with severe disabilities, inheritance and gift tax will be due by the last beneficiary of the transfer, to be specifically identified within the deed.

Transfer tax

Contracts relating to the transfer of the Notes are subject to the registration tax as follows:

(a) public deeds and notarized deeds (*atti pubblici e scritture private autenticate*) are subject to fixed registration tax at rate of Euro 200; and

(b) private deeds (*scritture private non autenticate*) are subject to fixed registration tax of Euro 200 only (i) in case of voluntary registration, or (ii) in case of cross reference in a deed, agreement or other document entered into, executed or signed by the same parties thereto and registered with the competent Registration Tax Office or in a judicial decision (*enunciazione*), or (iii) in "case of use". According to article 6 of the Presidential Decree no. 131 of 26 April 1986, a "case of use" would occur if the relevant document is deposited with a central or local government office or with a court chancery in connection with an administrative procedure.

Income tax

According to article 19 of Law Decree no. 201 of 6 December 2011 ("**Law Decree no. 201/2011**"), Italian resident individuals holding financial assets – including the Notes – outside of the Italian territory are required to pay an income tax at the rate of 0.2 per cent. The tax applies on the market value at the end of the relevant year or – in the lack of the market value – on the nominal value or redemption value of such financial assets held outside of the Italian territory. Taxpayers are enabled to deduct from the tax a tax credit equal to any income taxes paid in the State where the financial assets are held (up to the amount of the Italian income tax due).

Stamp duty

According to article 19 of Law Decree no. 201/2011, a proportional stamp duty applies on a yearly basis at the rate of 0.2 per cent. on the market value or – in the lack of a market value – on the nominal value or the

redemption amount of any financial product or financial instruments (as the Notes). For investors other than individuals, the annual stamp duty cannot exceed the amount of Euro 14,000. Based on the wording of the law and the implementing decree issued by the Italian Ministry of Finance on 24 May 2012, the stamp duty applies to any investor who is a client (as defined in the regulations issued by the Bank of Italy on 9 February 2011) of an entity that exercises in any form a banking, financial or insurance activity within the Italian territory.

Tax monitoring obligations

Pursuant to Law Decree no. 167 of 28 June 1990 individuals, non-commercial entities and non-commercial partnerships (*società semplici* or similar partnerships in accordance with article 5 of the Italian Presidential Decree no. 917 of 22 December 1986) which are resident in Italy for tax purposes and in the course of the year hold (or are beneficial owners, as defined for anti-money laundering purposes, of) investments abroad or have financial activities abroad must, in certain circumstances, disclose the aforesaid and related transactions to the Italian tax authorities in their income tax return (or, in case the income tax return is not due, in a proper form that must be filed within the same time as the income tax return), regardless of the value of such assets (save for deposits or bank accounts having an aggregate value not exceeding Euro 15,000 throughout the year). The requirement applies also where the persons above, being not the direct holder of the financial instruments, are the actual owner of the instrument.

The above reporting is not required to be complied with respect to Notes deposited with qualified Italian intermediaries and with respect to contracts entered into through their intervention, *provided that* the financial flows and income derived from the Notes are subject to tax by the same intermediaries.

The Proposed Financial Transaction Tax

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transaction tax ("**FTT**") to be implemented by Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia only (the "**Participating Member States**").

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside the Participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, "established" in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

However, the FTT proposal remains subject to negotiation between the Participating Member States and the scope of any such tax is uncertain.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement between the Issuer and the Lead Manager dated 28 February 2017 (the "**Subscription Agreement**"), the Lead Manager has agreed to subscribe and pay for the Notes on the Closing Date. The Issuer has agreed to pay commissions to the Lead Manager and to reimburse certain of its expenses incurred in connection with the management of the issue of the Notes. The Lead Manager is entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States of America

The Notes have not been and will not be registered under the Securities Act or any state securities laws in the United States. The Notes are being offered only outside the United States by the Lead Manager to certain investors in offshore transactions in reliance on Regulation S, and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, "U.S. persons", except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them by Regulation S.

The Lead Manager has represented and warranted that it has not offered and sold the Notes, and that it will not offer and sell the Notes (a) as part of its own distribution at any time or (b) otherwise until forty (40) days after the later of the commencement of the offering and the Closing Date, except in accordance with Rule 903 of Regulation S. Accordingly, neither the Lead Manager nor any of its Affiliates (as defined in Rule 405 of the Securities Act) nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the Notes, and the Lead Manager has represented and agreed that it has complied and will comply with the offering restrictions requirement of Regulation S. The Lead Manager has agreed that, at or prior to confirmation of sale of the Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases the Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

> "*The securities covered hereby have not been registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered and sold within the United States or to, or for the account or benefit of, "U.S. persons" (i) as part of their distribution at any time or (ii) otherwise, until forty (40) days after the later of the commencement of the offering and the Closing Date, except pursuant to an exemption from, or in a transaction not subject to, the regulation requirements of the Securities Act. Terms used above have the meanings given to them by Regulation S.*"

Terms used in the above paragraph have the meanings given to them by Regulation S.

The Lead Manager has represented, warranted and agreed with the Issuer that:

(a) except to the extent permitted under U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**D Rules**"):

  (i) it has not offered or sold, and during the forty (40) day restricted period will not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person; and

  (ii) it has not delivered and will not deliver in definitive form within the United States or its possessions any definitive Notes in bearer form that are sold during the restricted period;

(b) it has, and throughout the restricted period will have, in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;

(c) if it is a United States person, (i) it is acquiring the Notes in bearer form for the purposes of resale in connection with their original issue and (ii) if it retains Notes in bearer form for its own account, it will only do so in accordance with the requirements of U.S. Treasury Regulation §1.163-5(c)(2)(i)(D)(6); and

(d) with respect to each Affiliate (as defined in Rule 405 of the Securities Act) of the Lead Manager that acquires Notes in bearer form from the Lead Manager for the purpose of offering or selling such Notes during the restricted period, the Lead Manager undertakes to the Issuer that it will either (i) repeat and confirm the representations and agreements contained in sub-paragraphs (a), (b) and (c) on its behalf or (ii) obtain from such affiliate for the benefit of the Issuer the representations and undertakings contained in subparagraphs (a), (b) and (c) above.

Terms used in the above paragraph have the meaning given to them by the United States Internal Revenue Code of 1986 and regulations thereunder, including the D Rules.

In addition, until forty (40) days after the commencement of the offering, an offer or sale of securities within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The Lead Manager has acknowledged that the Notes will be represented upon issuance by the Temporary Global Note which is not exchangeable for Permanent Global Notes or definitive Notes until the expiration of the 40-day distribution compliance period and, for persons other than distributors, until certification of beneficial ownership of the Notes by a non-U.S. person or a U.S. person who purchased securities in a transaction that did not require registration under the Securities Act. Terms used in this paragraph have the meaning given to them by Regulation S.

United Kingdom

The Lead Manager has represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**") received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Republic of Italy

The offering of the Notes has not been registered with CONSOB pursuant to Italian securities legislation. The Lead Manager has represented and agreed that any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Any such offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time);

(ii) in compliance with Article 129 of Legislative Decree No. 385 of 1 September 1993, as amended, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy and the relevant implementing guidelines of the Bank of Italy issued on 25 August 2015 (as amended on 10 August 2016); and

(iii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

General

No action has been or will be taken in any jurisdiction by the Issuer or the Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer and the Lead Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession or distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

The Lead Manager has represented, warranted and agreed that it will, to the best of its knowledge and belief, comply with all the relevant laws and regulations in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Prospectus or any other offering material, in all cases at its own expense.

GENERAL INFORMATION

Authorisation

The creation and issue of the Notes has been authorised by a resolution of the Issuer's Board of Directors dated 26 January 2017.

Listing and Admission to Trading

Application has been made to the Irish Stock Exchange for the Notes to be admitted to trading on its regulated market and to be listed on the Official List. Admission is expected to take effect on or about the Closing Date.

Expenses related to Admission to Trading

The total expenses related to admission of the Notes to trading are estimated at €4,800.

Listing Agent

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on its regulated market for the purposes of the Prospectus Directive.

Legal and Arbitration Proceedings

Save as disclosed in "*Description of the Issuer – Legal Proceedings*", neither the Issuer nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer or the Group.

Significant/Material Change

Since 31 December 2016 there has been no material adverse change in the prospects of the Issuer and no significant change in the financial or trading position of the Group.

Auditors

The consolidated financial statements of the Group as at and for the years ended 31 December 2016 and 2015 have been audited without qualification by PricewaterhouseCoopers S.p.A., which is registered under No. 119644 in the Register of Accountancy Auditors (*Registro Revisori Legali*) by the Italian Ministry of Economy and Finance, in compliance with the provisions of the Legislative Decree No. 39 of 27 January 2010. PricewaterhouseCoopers S.p.A., which is located at Via Monte Rosa 91, 20149 Milan, Italy, is also a member of ASSIREVI (the Italian association of auditing firms).

Documents on Display

For so long as the Notes remain outstanding, physical or electronic copies of the following documents may be inspected during normal business hours at the offices of the Fiscal Agent at 13th Floor Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom:

(a) the By-laws (*statuto*) of the Issuer;

(b) the Agency Agreement;

(c) the Deed of Covenant; and

(d) the audited consolidated annual financial statements of the Group as at and for the years ended 31 December 2016 and 2015.

A copy of this Prospectus and any document incorporated by reference in this Prospectus will also be available for viewing on the website of the Irish Stock Exchange (*www.ise.ie*).

Interests of natural and legal persons involved in the issue/offer

The Lead Manager and its affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

In addition, in the ordinary course of their business activities, the Lead Manager and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the account of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. The Lead Manager or its affiliates that have a lending relationship with the Issuer may routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, the Lead Manager and its affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Lead Manager and its affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities or instruments.

In addition, as described in "*Subscription and Sale*", the Lead Manager will receive commission in connection with the subscription and sale of the Notes.

Yield

On the basis of the issue price of the Notes of 98.224 per cent. of their principal amount (plus accrued interest), the gross real yield of the Notes is 6.300 per cent. on an annual basis. Such amount is not, however, an indication of future yield.

Legend Concerning US Persons

The Notes and any Coupons appertaining thereto will bear a legend to the following effect:

"*Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165*(*j*) *and 1287*(*a*) *of the Internal Revenue Code*".

ISIN and Common Code

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Notes have the following ISIN and common code assigned to them:

ISIN: XS1572408380

Common code: 157240838

ISSUER

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FISCAL AGENT AND PAYING AGENT

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Earlsfort Terrace
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Ireland

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To the Issuer as to Italian tax law:

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To the Lead Manager as to English and Italian law:

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