2016 Reports and Financial Statements

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Letter from the Chairman

LETTER FROM THE CHAIRMAN

Dear Shareholders,

2016 was a busy year of new events, which marked an important change in pace for the Institute and the ICBPI Group, starting with the appointment of the new Top Management. Giovanni De Censi, who, in his twenty years of presidency, built the Banking Group and, with far-sightedness and extraordinary commitment, combined with exceptional personal qualities leading to results of excellence, has decided to leave the leadership of the Institute; sincere thanks go to him from the Board of Directors and all the staff.

We are now awaiting a new phase which, starting from the results and the capital solidity achieved, seeks to consolidate the role of national champion in digital payments, able to create value for shareholders and to make an important contribution to transformation and modernization of the Italian economic system. My personal commitment and that of the whole company heads in this direction.

The renewal process and evolution of the Management team was launched, with the appointment of Paolo Bertoluzzo as Chief Executive Officer in July, and concluded in early 2017. The choice of Managers with international experiences and vision will add momentum and value, and will allow to better face the challenges of an increasingly dynamic and complex context.

2016 also led to profound changes in the corporate governance bodies. New committees were set up, the Strategic Committee and the Remuneration Committee, whose activities have helped to improve the efficiency of the Board's work by allowing the Board to focus on strategic decisions and supervision over the Group.

As part of the Group's growth and development strategy also via M&As in the E-money market, the acquisition of Bassilichi, a specialist in the payment and services sector for the business, and the Acquiring Business Unit of Monte dei Paschi di Siena and Deutsche Bank Italia was launched in 2016.

Mercury UK Holdco Limited, the company's controlling shareholder, completed the acquisition of Setefi Services and Intesa Sanpaolo Card from IntesaSanPaolo with the intent of building a strong relationship with the largest Italian bank and increasing its operational and innovation capability within the Group

This important growth effort of the Group took place in a context of a gradual recovery of the Italian economy. 2016 saw the Italian GDP grow close to 1%, lower than the average of the EMU countries but better than forecasts. The consolidation process of the recovery was driven by domestic demand, against the suffering of net exports.

The problem of the weight of the large impaired loan stock continued to burden the Italian banks in 2016 too.

In reference to the markets in which the ICBPI Group operates, the payment system remains dominated by cash, but the payment card market is undergoing a development phase that leverages on debit and prepaid products. The revolving card segment has registered an increase in volumes financed via the revolving credit card.

"No cash" banking transactions, globally, grew by about 9% in 2014 and by about 10% in 2015 with higher growth rates than the previous ten years. Mature markets, with a 6% increase, account for more than 70% of the total volume of transactions.

Total Assets under Management (AuM) of the Italian Asset Management sector amounted to EUR 2.247 billion in the third quarter of 2016. The evolutionary scenarios of the next few years see a continuation of growth with the possibility to reach EUR 2.7 billion in AuM by 2019, with an average annual growth of 7%.

The ICBPI Group 2017-2021 Business Plan, presented in 2016 and definitively launched on 9 February 2017, incorporates the technological evolution in progress and projects the Group towards a renewal and modernity perspective that needs to be seized without delay.

The Group's ambition is to become the national leader in digital payments, reaching the scale needed to compete with new players in the digital world by investing in technology, services, and know-how, with the aim of growing faster than the market, driving the development of digital payments in Italy along with partner banks, and pursuing a significant increase in profitability.

The development strategy will focus on payments, organic growth of the different business units, inorganic growth with targeted acquisitions in the payment sector, strong investments in technology excellence and know-how. Incisive actions will be carried out on the operational plan towards greater organizational efficiency and increasingly digitized services.

The economic results achieved are positive and consistent with the described situation, both in terms of size and in comparison with those of the previous year, and allow for the distribution of a high dividend.

The 2016 financial year ended with a consolidated Net Profit of EUR 104 million, against a result of EUR 90.5 million in 2015. Shareholders' equity amounted to EUR 2,059.0 million compared to EUR 1,144.6 million as at December 31, 2015. Consolidated EBITDA amounted to EUR 227.3 million, an increase of 13.2% compared to EUR 200.7 million in 2015.

2016, for the Bank, reported an EBITDA of EUR 121.6 million, up 15.7% compared with EUR 105 million in 2015. The Company closed the year with a profit of EUR 84.2 million against a profit of EUR 62.2 million in 2015. Shareholders' equity amounted to EUR 2,049.8 million compared to EUR 810 million in December 2015.

2017 opened with encouraging prospects thanks to the results obtained and to an initial, favourable, economic scenario.

We will pursue the new Business Plan and the transformation process already in place with determination, in order to increase the profitability and value of the Group by constantly improving the risk management discipline and carefully assessing all the opportunities the market is offering, aware of pursuing an important goal and with the responsibility to do it in the best interest of our customers, our shareholders and our people.

Corporate positions

21 March 2017

BOARD OF DIRECTORS

Chairman:	Franco Bernabè	
Deputy Chairman:	Giuseppe Capponcelli	
Managing Director:	Paolo Bertoluzzo	
Directors:	Luca Bassi	James Gerald Arthur Brocklebank
	Francesco Casiraghi	Michaela Castelli
	Simone Cucchetti	Giovanni De Censi
	Stuart James Ashley Gent	Federico Ghizzoni
	Larry Allan Klane	Robin Marshall
	Jeffrey David Paduch	Ottavio Rigodanza
Honorary Chairman:	Giovanni De Censi	

BOARD OF STATUTORY AUDITORS

Chairman:	Alessandro Grange	
Standing auditors:	Lorenzo Banfi	Paolo Francesco Maria Lazzati
Alternate auditors:	Alberto Balestreri	Marco Giuseppe Zanobio

GENERAL MANAGEMENT

General Manager:	Paolo Bertoluzzo
Deputy Vice-General Manager:	Pier Paolo Cellerino

Shareholders' Meeting notice

The Shareholders are convened to the ordinary Shareholders' Meeting in Milan, Corso Sempione no. 55, **on 21 April 2017 at 11.00 a.m. first call** and, if required, on 24 April 2017, at 8.00 a.m. second call, same place and time, in order to discuss the following

AGENDA

1. Financial statements as at 31 December 2016; Report on Operations of the Board of Directors; reports of the Board of Statutory Auditors and the Auditing Company; related resolutions.
2. Appointment of Directors; related resolutions.
3. Remuneration policies of the ICBPI Group; related resolutions.

2016 Reports and Consolidated Financial Statements

2016 Reports and Consolidated Financial Statements

At 31 December 2016 the structure of the Banking Group was as follows:

BANKING GROUP STRUCTURE

Istituto Centrale delle Banche Popolari Italiane S.p.a.	CartaSi S.p.a.	Help Line S.p.a.	Oasi Diagram Outsourcing Applicativo e Servizi Innovativi S.p.a.
The Parent Company, recorded in the National Register of Banks.	A financial company registered in the Register of Payment Institutions pursuant to Art. 114-septies of the Consolidated Banking Act, in which the Parent Company has a 98.745% stake.	A service company in which the Parent Company has a 70% stake.	A service company, 100% owned by the Parent Company.

The scope of consolidation of the ICBPI Group as at 31 December 2016 includes, besides the Group companies, the following:

SCOPE OF CONSOLIDATION

Hi-Mtf SIM S.p.A.	Unione Fiduciaria S.p.A
in which the Parent Company has a 25% stake.	in which the Parent Company has a 24% stake.

The Company, Mercury UK HoldCo Ltd, is at the top of the prudential scope of consolidation.

PRUDENTIAL SCOPE OF CONSOLIDATION

- **Mercury UK Hold Co Ltd.**
  - **ICBPI Group**
  - **Latino S.r.l.**
    - **Mercury Payment Services S.p.A.**
    - **Mercury Processing Services International LTD**
      - **Subsidiaries**

Board of Directors' Report on Banking Group Operations

Dear Shareholders,

GLOBAL ECONOMY

In 2016, the growth rate of the world economy slowed to 2.5%, from 3.0% in 2015, reflecting the spillover effects following the collapse in the global oil industry, triggered by the tumble in crude oil prices that initiated from the second half of 2014. In particular, the fall in GDP was limited to 1.6% in the US (compared to 2.6% the previous year), 0.9% in Japan (from 1.2%) and 1.6% in the Eurozone (1.9%). The unexpected decision by Britain to leave the European Union has so far had a marked impact on the weakening of the pound, with benefit for exports and UK growth at the expense of especially exports and the growth of the EU.

2016 closed with signs of recovery - especially in the US, where profits returned to growth in the third quarter - which create the conditions for a strengthening global economy in 2017.

Inflation has reached 2.5% globally from 1.9% in 2015, against the rise in commodity prices. In particular, the change in consumer prices shifted from 0.1% to 1.3% in the US and 0.0% to 0.2% in the Eurozone, and returned negative in Japan, where it fell to -0.2% from 0.8%.

In this scenario, the central banks in general have maintained accommodative monetary policies. The ECB zeroed the reference rate in March (and brought the deposit rate from -0.30% to -0.40%), and towards mid-year extended the asset purchase program to corporate bonds, with the objective to be raise back inflation to 2.0%. In Japan, the central bank continued to pump liquidity into the economy, keeping it stable at 80 trillion yen. In the US, however, in order to counter emerging inflationary pressures, the Federal Reserve raised interest rates on federal funds by 25 cents in December – to a range of between 0.50% and 0.75% - resuming of rate hike cycle started in late 2015.

THE ITALIAN ECONOMY

In a context of generalized slowdown, the Italian economy grew more than the previous year, albeit at a very slow pace. GDP, in fact, increased by 0.9% (from 0.7% in 2015), supported by investments (2.0%), consumption (1.4%) and exports (1.3%). Despite sluggish growth, the unemployment rate continued to decline, from 11.9% to 11.6%. In the final months of the year, entrepreneur surveys revealed the signs of a strengthening of investment and exports that appear promise a stable growth in 2017, in which, instead, consumption is expected to slow down due to the decline of real disposable income.

Inflation fell to -0.1% (from 0.1%), reaching a level not seen since 1959, depressed by wage growth reaching a record 0.4% low at year-end. In December, the trend change in consumer prices increased to 0.5%, but only because of the recovery in commodity prices.

In order to cope with the weak economic growth, the Government has adopted a moderately expansionary fiscal policy, while keeping the main public finance balances under control. If, in fact, on the one hand, structural net debt increased from 0.7% to 1.2% of GDP, on the other, the government deficit decreased from 2.6% to 2.4% thanks to lower interest expenditure and the presence of a stable primary surplus at 1.5%. Moreover, the government with the Economic and Financial Document (DEF) of last April decided to postpone the budget breakeven target by one year, from 2018 to 2019. Finally, the public debt has stabilized substantially, 132.8% of GDP (from 132.3% in 2015) and its turnaround is expected this year.

BANKS AND LENDING ACTIVITY

During 2016, the stagnation of domestic credit persisted.

LOANS AND DEPOSITS

According to the provisional data available in late November, the stock of loans to Italian residents amounted to 1,801 billion euros, down 1.1% on an annual basis.

This figure - adjusted for changes due to loan loss provisions, exchange rate fluctuations and securitisations - was the result of the 1.8% growth in loans to households and a stationary trend of corporate loans.

On the first aspect, growth was driven by consumer credit (+2.7% YoY in the three months ending in November) and the demand for home mortgages (+2% YoY, always in the three months ending in November).

In terms of enterprises and family businesses, the data stems from a divergence between the service sector (+2.3% YoY) and manufacturing (-0.5% YoY); the latter was hurt again by the sharp decline in loans to the construction industry

(-5.4% YoY). Corporate lending, with 20 or more employees, reported a substantial stagnation, while the decline in loans to smaller firms only decelerated (0.4 and -3.2%, respectively).

Between August and November, the total deposits of Italian banks remained practically stable. The increase in resident deposits and greater resort to the refinancing operations with the Eurosystem (which showed a year on year growth of 19.9% in late November) offset the decline in bonds held by households; a trend which has not even escaped the component represented by intermediaries and institutional investors. In late November, on an annual basis, resident deposits in Italy recorded a growth of 3%, non-resident deposits fell by 4.5%, while total bonds reported a 17.4% decline.

CREDIT QUALITY

The improvement of the economic outlook is reflected favourably on the credit quality of Italian banks, although gradually. In the third quarter of 2016, the flow of new impaired loans on total loans, net of seasonal factors and on an annual basis, fell by three tenths of a point to 2.6%. The indicator fell by four-tenths of a point for corporate loans (4.1%) and two-tenths for household loans (1.7%).

In the third quarter, for all the groups classified as significant for the purposes of supervision, the weight of impaired loans to total loans remained almost stable, gross and net of loan loss provisions (17.9% and 10.5%, respectively). The coverage rate (which is the ratio between adjustments and the consistency of impaired loans) increased to 47.3%. The weight of net non-performing loans (NPLs) to total loans stood at 4.73% at the end of November.

CONDITIONS OF CREDIT OFFER AND THE SPREAD BETWEEN INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

The cost of credit also remained at historically quite low levels in 2016. In November, the average interest rate on new loans to businesses fell further by 10 basis points compared to the survey of August (1.6%). The cost of new mortgages fell by 15 basis points for fixed-rates (2.2%) and 10 basis points for floating rates (1.7%).

According to calculations made by the ABI (Italian Banking Ass.), in late November, the spread between the average interest rate on loans and average interest rate on deposits to households and non-financial corporations stood at 190 basis points (194 basis points the previous month). Before the financial crisis, in late 2007, this spread stood at 329 basis points.

PROFITABILITY AND CAPITALIZATION

The data of the Economic Bulletin of the Bank of Italy (January 2017) showed that, in the first nine months of 2016, the profitability of significant groups (supervised by the ECB) decreased compared to the same period last year: the annualized return on equity (ROE) fell to 1.4%, from 3.8%. Both net interest income and other revenues declined (by 4.3% and 1.4% resp.). Operating expenses rose 6.1%, mainly due to specific costs associated with redundancy plans of the staff and for the contributions to the deposit guarantee and resolution funds. Operating profit declined by about a fifth over the same period last year. Loan loss provisions (LLPs) increased by 20.6%, as a result of the significant increase the coverage rates of impaired exposures by some Intermediaries; and in spite of the slowdown in the flows of new impaired loans

In the third quarter of 2016, capitalization levels improved slightly: the primary quality capital (CET1) of significant groups stood, on average, at 11.9% of the risk weighted assets, up by about 10 basis points compared to June.

GOVERNMENT INITIATIVES TO SUPPORT THE BANKING SECTOR

The problem of the weight of the huge stock of impaired loans to assets continued to burden the Italian banks in 2016. In late November 2016, gross NPLs of residents in Italy amounted to about 199.1 billion euros (85.2 billion net of loan loss adjustments), which was added - according to the latest information contained in the Statistical Bulletin (IV-2016) of the Bank of Italy (relating to late September) - to the 118.2 billion euros of gross Unlikely to Pay and 10.3 billion euros in Past Due/Overdue Loans.

The Government reached an agreement with the European Commission in January 2016, with which the possibility of using a government guarantee (guarantee on the securitization of loans, “Gacs”) on the less risky securities (senior) was introduced. Securities with an investment grade rating, issued in connection with the securitization of NPLs.

This measure was followed by amendments to the Bankruptcy Act and the Civil Procedure Code introduced by Law 132/2015, aimed at significantly reducing the debt recovery times and associated guarantees. This was accompanied, in the month of April, by the launch of an alternative investment fund, called Atlante, in which a number of banks, insurance companies, pension funds and other institutional investors had invested.

MEASURES LAUNCHED BY THE GOVERNMENT TO SUPPORT THE LIQUIDITY AND CAPITALIZATION OF THE BANKS

On 23 December 2016, Decree 237/2016 was issued, containing urgent measures for the protection of savings in the banking sector, aimed at regulating operationally interventions of public aid to banks. The measure contains, in particular, actions to address possible liquidity tensions and provisions permitting precautionary recapitalization intervention by the state. To this end, the

Government has authorized the allocation of resources up to a maximum of 20 billion euros for 2017.

The scheme is compatible with the European rules on state aid; interventions may be made without constituting grounds for bank resolution, according to Art. EU Directive 32/2014/59 on the Bank Recovery and Resolution Directive (BRRD) and art. 18 of EU Regulation/2014/806 on the Single Resolution Mechanism (SRMR).

SALE OF 3 "GOOD BANKS"

In the month of January 2017, the Executive Board of the Bank of Italy approved the signing of the contract for the sale of Nuova Banca delle Marche S.p.A., Nuova Banca dell'Etruria e del Lazio S.p.A. and Nuova Cassa di Risparmio di Chieti S.p.A. (three of the four "good banks" subject to a resolution procedure in November 2015) to Unione di Banche Italiane S.p.A.

The authorisation procedures required in respect of other Authorities and Institutions involved, including European, and the execution phase, aimed at the completion of the sale, will be immediately initiated.

The commitment of the Bank of Italy's Resolution Unit is now concentrated on the closure of ongoing talks with Banca Popolare dell'Emilia Romagna for the sale of Nuova Cassa di Risparmio di Ferrara.

BIG COOPERATIVE BANKS TRANSFORMATION INTO JOINT-STOCK COMPANY

During 2016, the transformation of a good number of cooperative banks into joint-stock companies also took place (those with assets in excess of eight billion euros), as provided by Decree of 24 January 2015, no. 33, which amended certain provisions of the Consolidated Banking Act. The process, however, was not completed by the end of 2016, after the State Council issued an order on 15 December 2016, which suspended, partially, the circular of the Bank of Italy of December 2013 that implemented the reform, particularly with regard to the part relating to the discipline of the right of withdrawal.

At the moment, the only two banks involved in the reform that have not yet proceeded with the transformation into a joint-stock company (as they had called the respective Shareholders' Meetings after the decision of the State Council) are Banca Popolare di Sondrio and Banca Popolare di Bari.

REFERENCE MARKETS

The following section provides some information about the markets in which the Group ICBPI operates.

E-MONEY

In the Italian market of Electronic Money, cash still plays the dominant role. In 2015, 87 transactions per capita were executed with non-cash instruments, compared to 202 of the Eurozone.

The payment card industry is going through a phase of development that relies primarily on debit and prepaid products.

During 2015 (source: Bank of Italy), the market for POS enabled debit cards grew: both in terms of number of cards (+7.0%) and use (volumes +16.8%, transactions +16.3%). Prepaid products continued their strong expansion in recent years, actually intensifying in terms of use (cards +12.8%, volumes 28.7%, transactions +28.2%), while credit cards have increased as a number (+0.9%, but +13.5% of active cards), and in use (volumes +0.4%, transactions +1.4%).

CartaSi estimates for the 2016 market see total volumes (VISA + Mastercard) up 11.0%, with a significant contribution of prepaid cards and international debit cards, whose POS volumes increased by 13.2%, compared to 7.6% of credit.

Credit growth has benefited from the contribution of Classic (+6.9%), Commercial (+5.4%) and Premium (+15.5%).

As for the revolving segment, an increase of +21.4% in volumes financed (source Assofin) through cards with revolving option was registered in the first eleven months of 2016.

PAYMENT SYSTEMS

Banking "no cash" transactions in 2014, globally, grew by about 9% and by about 10% in 2015 with a growth rate higher than the previous ten years. Mature markets, with a 6% increase, did not lead the growth although still account for over 70% of the total volumes of the transactions in question.

Bank customers, for the near future, particularly corporate ones, will expect a significant digitization of services provided by PSP such as: account management, data analysis, monitoring of compliance and fraud prevention. This catalyst toward digitization, however, will have to find the right harmonization, in terms of cooperation, between the PSP and the so-called "FinTechs" in order to expand and improve the supply and value chain.

The complex European regulatory framework that aims to standardize payment processes, mitigate risks, expand competition and a general innovation of the system, is having a significant influence on the operational and business models of the payment service providers (PSP) and, more generally, the stakeholders interested in the subject.

In particular, the new Directive (EU) 2015/2366 (so-called PSD 2) on retail payments which should be implemented by each Member State by 2017, broadening the previous regulatory provision issues (PSD), opens the market for payment services also for new non-bank subjects so-called TPP (Third Part Payment), with which, as already mentioned, also the European banking industry will confront.

At the same time, the European PSP and ACH are creating products and services that will take advantage of the new infrastructure for the management of retail payments in "instant" mode, adopting as much as possible from the existing SEPA schemes. Still in the area of Instant Payments, the European Central Bank has also launched a study to evaluate the implementation of a pan-European "Instant" instrument (TIPS). In light of this articulated scenario, it should be emphasized that, as occurred with SEPA, the success of these initiatives will be determined by the effectiveness and efficiency of the interoperability mechanisms that should be established between the parties involved.

ICBPI, in partnership with NETS, has developed an ACH Instant Payment according to EPC standards that will be operational in the pilot phase already in the first part of 2017, and which must necessarily include and activate interconnections structured with the homologous EBA Clearing infrastructure and the Settlement Agent (BI-Comp, T2).

INDIVIDUAL MANAGED PORTFOLIOS

Total assets under management (AuM) of the Italian asset management industry reached 2.247 trillion euros in the third quarter of 2016.

The evolutionary scenarios for the coming years predict a continuation of growth with the ability to reach 2.7 trillion euros in AuM by 2019, with an average annual growth of 7%.

The main driver behind the growth assumptions of Asset Management in Italy is given by the expectation of the growth in the wealth investment levels in savings products in order to align Italy to the European average. In 2015, the AuM value of the Italian industry was equal to 54% of GDP, against 114% of the European average. The percentage of the financial wealth of Italian households invested in asset management products was 28% in 2015, with a strong growth compared to 17% in 2008 but still far from the European average of 42%.

The progressive approach of the Italian indicators to the averages of the other countries of Europe will lead to the growth of industry, regardless of cyclical factors such as the performance of stock market indexes.

Among the savings products, Individual Managed Portfolios and Pension Funds will have a special impetus, for which a growth of 8% per year is expected, higher than the market average. Individual Managed Portfolios benefits from a supportive regulatory environment, allowing to protect distributors from any direct or indirect restrictions on inducements brought by MiFID II. The Open-end Pension Fund will be incentivized by the specific tax system and the uncertainties related to public pension schemes.

Within mutual funds, the gradual increase in market share of foreign registered and Roundtrip Funds is confirmed. In 2019, these products will represent 73% of the mutual fund market in Italy, with growth rates of over 8% per year. Among the growth drivers, the emergence of ETFs should definitely be considered, but to date only present on the market as foreign registered funds.

Dear Shareholders,

2016 ended with a consolidated net profit of Euro 104.0 million, compared to a net profit of Euro 90.5 million in 2015.

Shareholders' equity reached Euro 2,059.1 million, compared to Euro 1,144.6 million as at 31 December 2015.

These are positive economic results, both overall as well as with respect to the previous year, and were attained in a macroeconomic scenario of recovery that was very slow.

Operating revenue amounts to € 688.5 million, up € 7.6 million (+1.1%) despite the € 18.7 million drop in the overall interest margin.

Consolidated EBITDA is equal to Euro 227.3 million, up 13.2% against € 200.7 million in 2015.

DEVELOPMENT OF THE GROUP

As part of the Group's growth strategy and development also through acquisitions in the E-money market in late 2016, ICBPI signed an agreement to acquire up to 100% of Bassilichi SpA, the Parent Company of the Bassilichi Group, specialized operator in the payments sector and services for the business.

In the last quarter of the year, ICBPI also submitted offers for the acquisition of the business units relating to the Acquiring business of Banca Monte dei Paschi di Siena and Deutsche Bank S.p.A. The signing of both deals was finalized in February 2017. The acquisition of the businesses is now subject to obtaining the necessary authorizations from the competent Supervisory Authorities.

Mercury UK Holdco Limited, the majority shareholder of the Institute, through the vehicle Latino Srl, completed the acquisition of Setefi Services and Intesa Sanpaolo Card from IntesaSanPaolo on 15 December 2016, now Mercury Payment Services and Mercury Processing Services International respectively. The strategic rational of the deal lies in the opportunity to build a strong relationship with the largest Italian bank and the possibility of increasing the operational capacity and innovation within the Group; although the deal was carried out independently by Mercury UK, it can however bring synergies and advantages also to the ICBPI Group.

CONTROL AND GOVERNANCE STRUCTURE

As part of the renewal process of the ICBPI Group governance, initiated as a result of the change occurred in the Group's shareholding structure, the relevant governing bodies approved the turnover of Top Management of the Institution and the controlled CartaSi.

The Shareholders' Meeting of the Institute, which met in an ordinary session on 23 May 2016, after bringing the number of directors to fifteen, appointed Paolo Bertoluzzo as director for the years 2016 and 2017. On the same date, the advisory board of' Institute approved the appointment of Paolo Bertoluzzo as General Manager and Chief Executive Officer with effect from 11 July 2016. The same representative also assumed the position of Chief Executive Officer of CartaSi's also with effect from 11 July 2016.

Giuseppe Capponcelli, at the helm of the Institute since 2008 and CartaSi since 2015, assumed the position of Vice-Chairman of the Parent Company from 11 July 2016.

On June 22, Franco Bernabè, former Chairman of CartaSi, also assumed the presidency of the Parent Company.

Giovanni De Censi concluded the two decades of presidency of the bank and assumed the position of honorary Chairman, as well as that of Director.

EVOLUTION OF THE SHAREHOLDING STRUCTURE OF THE PARENT COMPANY

On 23 November 2016, the Shareholders' Meeting, convened in an extraordinary session, approved the reverse merger of Mercury Italy S.r.l. (SPV indirectly held by the funds, Bain Capital, Advent International and Clessidra) in ICBPI.

The merger was completed the following December 29. All 12,635,323 ordinary shares of ICBPI, held by Mercury Italy S.r.l. and representing 89.07% of the share capital of the acquiring company were assigned due to effect of the merger to - the only shareholder of the acquired company - Mercury UK HoldCo Limited, holding via third party partners (i.e. other than UK HoldCo Limited) 1,475,276 ordinary shares of the Institute already held.

The deal had been recommended by the Supervisory Authority in order to shorten the various holdings within the banking group.

EQUENS WORLDLINE

On 30 September 2016, the integration between a branch of Worldline (company part of the Atos Group) and Equens SE was completed.

The shareholding structure of Equens SE Worldline resulting from the deal is as follows: Worldline 63.60%; ABN Amro 7.4%; DZ Bank 11.89%; ICBPI 5.76%; ING 5.91%; Rabobank 5.80%.

The Equens Worldline SE company, due to effect of the transaction, is therefore excluded from the ICBPI Group's scope of consolidation.

ICBPI has maintained a representative on the Company's Supervisory Board, in the person of the Group Chief Information Officer.

VISA TRANSACTION

On 21 June 2016, the acquisition deal of Visa Europe Limited by Visa Incorporated (USA) concluded.

The transaction involves two stages: an initial payment of 17.25 billion, partly in cash (12.25bn) and partly in preferred shares (5bn), accompanied by a deferred payment in cash of 1.12 billion (including interest), after the third anniversary of the closing.

INTERNAL AUDIT SYSTEM OF THE GROUP

During 2016, the development projects of the Group's Internal Control System continued in line with the evolution of the relevant legislation.

The Audit Department, in continuity with the development activities of its control model, carried out in 2015, launched further evolutions in the areas of final statements and management of the "Corrective Actions" emerged in the Audit checks, bringing the integrated module of the IT application SAS GRC into production.

Moreover, the first assessment of the "Internal Control System (ICS)" was carried out using the new methodology developed during 2015, which provides an integrated assessment with the other players in the system and more responsive to new analysis schemes used by the Supervision for the evaluation of intermediaries.

The development of an additional set of "Remote Controls", as requested by the Supervisory Authority, involved the area of "Payment Services" continued. Additional indicators have been added with regard to "Electronic Money" and, over the year, it was decided to extend the use of the integrated SAS VA system, for the monitoring of a series of indicators related to Eni, Vodafone and Trenitalia prepaid cards.

The Compliance Department, which oversees the rules with regard to all the company's activities on a "risk-based" approach, updated the regulatory perimeter applicable to the ICBPI Group during the year; standardized the methodology for measuring the risk of non-compliance adopted by the Supervisory Specialists with respect to that used by the Department; introduced the concept of "ex post" reputational risk in the methodological framework; expanded its scope of competence.

In reference to the Anti-Money Laundering Function, the self-assessment of risks of money laundering and terrorism financing completed successfully, prepared in accordance with the provisions in the Bank of Italy Communication of 21 October 2015.

RISK GOVERNANCE

The activity continued on the regulatory adaptation and fine-tuning of methodologies, systems and measurement processes of business risks. The project initiatives were analysed, some of which are classified as Significant Transactions, relating to the development of new products/services to all Group companies. As regards operational risk, the planned activity of Risk Control Self-Assessment of the operational processes was carried out. A new conduct risk analysis model was defined and the development of a VaR calculation model for operational risk was completed. Finally, the preparation of the Recovery Plan began, a document required by Banks from the Banking Recovery and Resolution Directive (BRRD).

ORGANISATIONAL STRUCTURE OF THE ICBPI GROUP

In reference to the guidelines of the Business Plan approved by the Board of Directors of the ICBPI Parent Company on 22 June 2016, a new organizational structure for ICBPI and CartaSi was adopted in November in accordance with the target organizational model of the Group, which will be developed in two phases. The first phase, completed in November 2016, saw the implementation of the first reporting line of the CEO through the establishment of first-level functions in ICBPI and CartaSi. The second phase will take into account the evaluations of the new Managers and the indications provided in the 2017-2021 Group Business Plan.

The target organizational model focuses on three strategic business lines, Issuing, Merchant Services and Payments/ATM, accompanied and supported by a number of support functions.

As for the Parent Company, the following have been established: the Chief Financial Officer Area (CFO area) to improve the effectiveness of the management of all aspects of finance, planning and management control, administration, analysis and financial reporting and to provide support to business functions for financial and business planning. The Chief Administrative Officer Area (CAO Area) with the aim to place the human resource management functions under the direct reporting of the CEO and to which the organization functions, internal communications and general services respond; The Corporate & External Affairs Department to strengthen the Group's ability to proactively manage relationships with institutions and more broadly with the external environment, and to which the management functions of Legal Affairs of the Group, the corporate secretarial activities for the governing bodies and the definition of objectives and strategies of institutional and external communications are assigned.

The Payments & ATM Business Unit has acquired the responsibility of the ATM business development.

The Chief Information Officer Area (CIO Area) was reorganized to align the centres of excellence to the Business Units, creating a centre of excellence dedicated to the development of projects in the “digital” area and create a new Service Management function focused on “delivery”.

The Digital Corporate Banking Department (limited to the analysis, development and maintenance of applications used for the provision of expertise services) and the Development Software and OASI Architectures Department also report functionally to the CIO.

As for CartSi, new Issuing and Merchant Services Business Units were setup to allow better alignment with respect to the needs and service models for the two main segments of the end-clientele (cardholders and merchants). The Commercial BU was setup, dedicated to the sales of all Group products and services through the bank channel. The new Business Development BU was setup dedicated to the development of new strategic initiatives for the business of the Group.

The Payment Cards BU has assumed the name of Operations BU with the task of overseeing all operational activities of the E-money to support the Issuing and Merchant Services Business Units, focusing in particular on the quality of service and improving the operational efficiency and effectiveness. The Operations BU was also assigned the responsibility of managing the Customer Care function and it now includes the activities and resources of the ATM and POS BU, which has been suppressed.

The Governance and Support BU has also been eliminated, whose activities and resources were transferred respectively to the Operations BU and the CFO CartaSi Area, which has been assigned to the ICBPI CFO allowing to centralize all the competence areas under his responsibility, including in particular the CartaSi Planning and Management Control and overseeing the relations with the International Circuits.

In CartaSi, the role of Chief Information Security Officer has also been established with the task of ensuring compliance with the relevant regulations of the International Circuits in the field of information security, in coordination with the centralized competent functions at the Parent Company in relation to the ACS services (Access Control Server) and HCE (Host Card Emulation).

As part of the Quality Management System, tests were successful on the confirmation of the ISO9001 certification for the Parent Company, CartaSi and Oasi, and ISO9001 certifications and UNI EN 15838 (certification of specific excellence for contact centers) for Help Line.

REGULATORY COMPLIANCE

In 2016, the process of adapting to the regulatory requirements initiated in part in 2015 continued.

The adaptations to internal processes were completed necessary for the compliance with respect to the 16th update of Circular no. 285 of 17 December 2013 "Supervisory Provisions for Banks" and in particular the measure relative to the "Supervisory Provisions for payment institutions and electronic money institutions", an update on the security of internet payments.

Activities related to the requirements provided by Law 8 April 2016, no. 49 (containing amendment of art. 120 of the Consolidated Banking Act) relating to generating interest in transactions carried out during the banking activity (compound interest) were completed and the processes have been adapted to the legislation.

The update of the Organizational Model ex. Legislative Decree 231/01 was completed for ICBPI, CartaSi, Help Line, aimed at transposing the provisions concerning: crimes against the environment (so-called. "Ecoreati Law", Law 68/2015), crimes against Public Administration, Mafia-type associations and false accounting (so-called "Anticorruption Law", Law 69/2015), self-money laundering crime (inserted within Legislative Decree 231/01 by Law 186/2014), to integrate the principles of conduct and strengthen the controls and supervision in place. The activities related to the update for the OASI Company have started and will be completed in the first quarter of 2017.

The preliminary activities continued in ICBPI and CartaSi for the observance of Law 18 June 2015, no. 95 and Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards the mandatory automatic exchange of information in tax issues (Common Reporting Standard - CRS), and activities were initiated for the obligations provided by the successive deadlines.

GROUP INFORMATION SYSTEM

In the second half of 2016, the new organizational structure of the Information System Department was redesigned according to the following logic:

- Articulation of the IT functions which mirror the Business Units, in line with the Group's overall reorganization;
- Creation of a dedicated function to provide adequate support to the growing demand for "Digital" applications and services;

- Improvement of the key areas for the IT Governance model i.e. Architectures, Contract & Vendor Management, Project Portfolio Management;
- Strengthening know-how in the IT security, particularly in the areas of Cyber Crime and PCI-DSS compliance;
- Creation of a specific function to manage the service and oversee production i.e. "Service Management".

In addition to the organizational review, in order to respond effectively to the needs of improving the quality of services and ability to delivery, a Transformation Program was activated including specific actions in the area of processor management and a remediation plan for the implementation of actions identified by an evaluation carried out by international advisors.

Moreover, given the Group's new context that saw the acquisition of Bassilichi and Setefi during 2016, an IT strategy project was started to define an IT Blueprint relative to both Core Processing platforms and infrastructure in Digital.

ICT services and solutions for Payment Systems

In the area of Payment Systems, relating to the SEPA procedures, the migration of SCT volumes to the interoperability solution with EBA Clearing was completed, thus ensuring the full accessibility of the counterparties.

As for the domestic payment procedures, ICBPI launched activities for the realization of the new interbank procedure, aimed at the management of the cheque encashment cycle through the exchange of digital images and data on new XML formats in line with ABI standards, which provide for the start of the service by the end of 2017.

Work continued on a regular basis for the project to create an Instant Payments platform with which, in collaboration with the Danish company NETS, the infrastructure enabling the Clearing and Settlement for all types of payment based on IBAN is being completed: domestic, SEPA and Real-Time.

The infrastructure will enable easy integration with the proprietary of member banks and can be activated in multichannel, supporting multiple use cases, such as the existing services of exchange funds between private (P2P) and future services of real-time payment towards public administration, merchant, and intercompany trade.

In addition, in line with the offer of ICBPI within SEPA, the construction of a Gateway was launched to initialize Instant Payment on behalf of Retail and Corporate customers of ICBPI for the settlement of Indirect Banks. The activity should be completed by November 2017, in any case, ICBPI decided to initiate a Pilot solution from the first quarter 2017.

In conclusion, by virtue of the increase in volumes of the INPS voucher service offered to Banks, ICBPI defined developmental actions in support of emerging business ventures.

Services and ICT solutions for Securities Services

As part of the pan-European project, “Target 2 Securities”, the “adaptations” requests were completed for wave 2 that allowed the successfully migration of the Belgian (only bonds) and Portuguese markets. ICBPI will conclude this project in 2017 with the adaptions required by the subsequent wave.

In the second half of the year, a study for the re-engineering of the “Global web Custody” platform for use by clients was completed. This project, aimed at improving the offer in operational terms, will be completed in the first half of 2017.

In the fourth quarter, an important new client was acquired, transversal to various areas of Securities Services (Global Custody, Fund Services, Custodian Bank and Master Database), which enabled to expand the product portfolio.

As part of the use of “Info-providers”, the “cost-containment” project in relation to the segment of database information was successfully completed. The success of this project has resulted in major economic returns, in perspective even more evident in 2017, while maintaining the quality of the service provided.

ICT services and solutions for E-money

The following operations of regulatory, technological, developmental and innovative nature were implemented with respect to the IT systems of CartasSi.

Regulatory Environment:

- Completion of developments in compliance with the Bank of Italy regulations on purchases over the Internet, issued under the EBA rules in order to allow the holders the choice to use their card on the Internet and establish spending limits, as well as other informative, support and delivery functions on the portals;
- Continuous adaptation of services to the circuit regulations e.g. new BIN Mastercard, Contactless migration;
- Completion of the adaptations of the Revolving product Anti-usury controls for cards with double line of credit;
- Completion of the adaptations, in accordance with banking transparency, related to communications to credit card holders regarding the improved and/or pejorative changes to contractual conditions.

Evolutionary Context:

- Creation of a new international debit card product licensed CaraSi, with the start of the roll-out process on Service Centres and Client Banks;

- Creation of new credit card products with instalment options for some servicing/associate banks;
- Continuation of the development and update program of the application platforms for the EquensWorldline processor with analysis of new systems solutions for card management acquiring and front-end authorizations;
- Continuation of the integration of the various value-added services (VAS) with the fraud prevention system, and improvement of self-caring processes with the objective to reduce calls to the Contact Centre.

Innovative Area:

- Activation of the new virtual card management service via smartphones (HCE) for CartaSi;
- Completion of the developments for the management of the PagoBancomat card on the WEB (Internet purchases), with the start of first tests with pilot banks;
- Creation of a new infrastructure for the rapid acquisitions of e-commerce merchants, which will be released to production in early February 2017;
- Start of analysis for Over The Top integration: ApplePay;
- Integration of new Masterpass mode of payment on the online payment gateway;
- Introduction of the new APP TouchID authentication system on smartphones.

ICT Services and solutions for Corporate functions and Control functions

During 2016, many activities and projects were carried out to implement regulatory changes, primarily on areas of Anti-Money Laundering, Regulatory Reporting, Risk Management and Tax Compliance, along with projects aimed at the functional and technological improvements of the range of applications.

On the subject of Data Governance, in accordance with the provisions of Circular 285 of the Bank of Italy, an IT system was created for the management of the Bank's Information Map, and Data Quality controls were implemented focused on priority areas i.e. processes of Anti-Money Laundering and Regulatory Reporting, relating to securities, prepaid cards and commissions.

Infrastructure

In 2016, the migration of the Data Center of Corso Sempione at the Data Centers of Pero and Settimo Milanese of EquensWorldline was completed, in line with the Outsourcing agreements reached in the previous years.

In addition, as part of the IT Transformation program previously mentioned, the plan of actions to improve the infrastructure was defined and initiated, aimed at achieving higher levels of reliability and safety standards.

The following areas of activity are distinguished:

- Re-architecture i.e. actions targeted at the architectural strengthening of critical applications for Business;
- Life cycle i.e. renovation of obsolete technology assets indispensable to maintain the services and compliance with industry certifications such as PCI-DSS;
- Disaster Recovery i.e. review of technologies and Disaster Recovery plans of the migrated systems on EquensWordline Data Center.

IT Security

As part of IT Security, the continuous improvement process of the IT security controls and measures to prevent cybercrime, among the main activities in progress, saw:

- the increase in protection levels for access to network services by third parties, through NAC solutions (Network Access Control);
- the increase of protection capabilities and analysis on employee workstations (corporate), thanks to the installation of evolved ATP agent (Advanced Threat Prevention);
- the strengthening of controls to prevent phishing and theft of customer data, through the most efficient processing of the data collected and the subscription of intelligence services;
- the review and improved efficiency of vulnerability management processes for the identification and timely resolution of IT security vulnerabilities;
- the strengthening of governance of the strategic outsourcers (SIA and EquensWorldline) through the formalization of security communication flows and the formation of specific joint workgroups on security, with regular meetings.

HUMAN RESOURCES

As for human resources, the Group's headcount at 31 December 2016 amounted to 1,895 resources, against 1,913 of 31 December 2015, and are distributed among individual companies:

	ICBPI				CARTASI				OASI			
	dic-15		dic-16		dic-15		dic-16		dic-15		dic-16	
	HC	FTE	HC	FTE	HC	FTE	HC	FTE	HC	FTE	HC	FTE
Managers (*)	34	34,0	35	35,0	15	15,0	14	14,0	7	7,0	6	6,0
Middle Management	381	374,3	385	378,5	192	190,1	192	190,0	37	37,0	37	37,0
Permanent Staff	452	431,3	442	420,7	327	303,8	326	302,9	51	50,3	54	53,3
Temporary Staff	16	15,3	9	9,0	---				1	1,0		
Total	**883**	**854,9**	**871**	**843,2**	**534**	**508,9**	**532**	**506,9**	**96**	**95,3**	**97**	**96,3**

	HELP LINE				ICBPI Group			
	dic-15		dic-16		dic-15		dic-16	
	HC	FTE	HC	FTE	HC	FTE	HC	FTE
Managers (*)	2	2,0	2	2,0	58	58,0	57	57,0
Middle Management	17	16,8	17	16,8	627	618,1	631	622,3
Permanent Staff	333	278,9	331	275,7	1.163	1.064,4	1.153	1.052,6
Temporary Staff	48	45,1	45	41,6	65	61,4	54	50,6
Total	**400**	**342,9**	**395**	**336,2**	**1.913**	**1.802,0**	**1.895**	**1.782,6**

(*) Managers with a temporary contract included

INFORMATION ON STAFF AND THE ENVIRONMENT

On the subject of Health and Safety, environmental surveys were carried out to monitor the quality of the workplace, leading to structural interventions. In addition, the assessment of the data relating to work-related stress risk continued. Finally, given the recurrence of the telluric phenomena in Italy, training on emergency management and related practical evacuation drills have focused on conduct to be adopted in case of an earthquake.

On the subject of Training, the Group Training Plan "Training to enhance the roles and skills in the ICBPI Group" was designed for 2016. A good part of the plan was presented to the Banking and Insurance Fund for funding, as a result of the Trade Union agreement.

The 2016 Training Plan capitalized and gave continuity to the training provided in previous years and its guidelines, objectives and content continued to be tightly anchored to the evolutions of the ICBPI Group.

The goal was to develop and enhance the distinctive and particular know-how of the CBPI Group, on the one hand, consolidating the wealth of existing knowledge and qualifying to the profession after the release/change of activities, on the other, developing the know-how for the professionalism of the next future, and preparing for new roles and responsibilities.

In this sense, the Plan intended to:

- ensure the development of resources, giving the opportunity to acquire the necessary skills to improve operational, decision-making and relational efficiency;
- develop training programs to equip the individual with the necessary tools to manage the complexity of work, in particular stress management;
- respond to on demand requests with "dedicated projects" aimed at achieving business goals;
- respect the current regulations of the bank and intermediary activities.

Training projects to support the adoption of the new organizational model played particular importance, with the aim of helping people to align with the new roles, offering courses aimed to develop specific skills of the business area or governance and soft skills.

In 2016, training activities involved a total of 1,838 resources for a total of 52,235 hours of training, of which 17% for compulsory education, 63% for specialized training and 20% for management training, with an average of about 3.8 days/man of the total employees. In this number of hours, in fulfilling the provisions under Art. 72. Para. 3 a) of the National Collective Bargaining Agreement in force, 13,374 training hours in addition in e-learning were provided, divided as follows: ICBPI 6,797 hours, CartaSi 4,882 hours, Oasis 793 hours and Help Line 902 hours.

COMMUNICATION, INSTITUTIONAL EVENTS AND MEDIA RELATIONS

Communication events include the following:

- Events (EACHA Payment Forum; EBADay; SIBOS; Money 20/20) were promoted by international institutions, dedicated to examining and comparing regulatory, technological and innovation evolutions in the business areas of traditional and digital payments;
- Participation in events organized by other institutions and associations (including ABI, Politecnico di Milano, Centro di Ricerca in Tecnologie, Innovazione e Servizi Finanziari _ CeTIF, team Itinerari Previdenziali);
- Organization of the joint Workshop with Cedacri, (24 May 2016), for the promotion and enhancement of innovative ICBPI Payments Services;
- Media Relations aimed at the enhancement of the main institutional business initiatives of the Parent Company and its subsidiaries;

- Publishing initiatives (magazines and online) intended for the public, both internal (House Organ- Open) and external (Magazine - Mind The Gap Mind and The Step and Internet sites).

PERFORMANCE OF THE PARENT COMPANY AND THE GROUP COMPANIES

The results of the Financial Statements and the initiatives of the Parent Company and the Subsidiary companies (CartaSi, Help Line, Oasi, subject to management and coordination by the Institute) and of the main investee companies (Hi-Mtf Sim and Unione Fiduciaria, included within the scope of consolidation) are as follows.

ICBPI S.P.A.

ICBPI reported a profit for the year of € 84.2 million compared to a profit of Euro 62.2 million in 2015.

EBITDA amounted to € 121.6 million, down 15.7% compared to € 105 million in 2015.

Shareholders' equity totalled € 2,049.8 million compared to € 810 million of December 2015.

CARTASI S.P.A.

The company, in which ICBPI holds 98.745% of the share capital, closed the financial year with an EBITDA of € 168.3 million (+32.4% compared to 2015) and a profit before taxes of € 392.3 million, higher than the previous year (+278.7%).

The business performance of 2016 led to an overall management of about 15.4 million cards and over 2.6 billion transactions.

The activities are analysed below, in relation to the three main business lines managed by the company:

- Issuing and Acquiring under Direct License and on behalf of Banks;
- Servicing;
- POS and ATM terminal management.

Issuing and Acquiring activities under Direct License and on behalf Banks:

- The range of cards decreased compared to 2015 (-5.3%), to almost 8.9 million cards at end of the period, mainly due to the rationalization of the stock of prepaid cards made during the year;
- Breakdown by product of the new issues in the year (1.9 million cards) reflects the slowdown of the issue of co-branded prepaid cards, compared to previous periods;

- Breakdown by product of the cards in circulation at the end of year shows a reduction of the weight of the prepaid product;
- Total spending of the cardholders amounted to about € 28.8 billion and recorded an increase of 3.1% compared to 2015;
- Average use of credit cards under Direct License, which remains among the highest in the market, was up despite the economic downturn, partly as a result of promotions and spending stimulation implemented during 2016;
- Acquiring volumes amounted to about € 52.2 billion, an increase (+4.0%) compared to 2015;
- Total number of Issuing and Acquiring transactions managed showed an increase of 7.3%.

Servicing activity:

- Stock of cards managed on behalf of third party licensees amounted to about 6.5 million cards, up 4.9%,
- Number of functions related to the domestic debit cards (31.1 million) was up compared to 2015 (+1.7%),
- Total number of transactions managed (1.649 billion) was up compared to last year's figure (+8.0%).

Terminal management activity

- Stock of managed POS, composed of e-commerce (over 13,000 units) and physical (about 530,000 units) terminals declined overall due to the exit of some major customers,
- In particular, the number of virtual POS continues to show a good growth rate (+1.5%) compared to 2015, in consequence of the expansion of the industry and marketing initiatives,
- ATM terminals managed totalled 9,300 units and were down compared to last year (-0.8%) as a result of the rationalization of branch network by some client Banking Groups.

The main economic indicators of 2016, compared with those of 2015, show the following key results:

- Income statement as at 31 December 2016 reports a profit for the year amounted to € 329.9 million compared to € 71.3 million in the previous year (+362.8%);
- Net commissions and income from services amounted to € 470.1 million (+6.0%), compared to € 443.7 million in 2015;

- Negative net interest income reported € -8.0 million (+25.8%), € -6.4 million in 2015;
- Personnel expenses totalled € 38.2 million, in line with 2015;
- Administrative expenses amounted to € 283.3 million (-5.1%) compared to € 298.5 million in 2015.

The Balance Sheet as at 31 December 2016 shows total assets of € 2,791.9 million versus € 2,901.1 million in 2015.

In particular:

- Credit amounted to € 2,391.8 million, in line with € 2,369.0 million of 2015;
- Property and equipment is € 84.2 million compared to € 81.7 million in 2015; the increase is mainly due to the expansion of the range of POS;
- Non-current assets and groups of assets held for sale are no longer present due to the Visa Europe acquisition by Visa Inc;
- Debts amounted to € 1,618.5 million, compared to € 1,906.0 million in 2015, and the decrease is due to lower funding requirements;
- Funds amounted to € 13.6 million compared to € 15.8 million in 2015.

The CartaSi business activity during 2016 was characterized by the coordinated action of all the business lines and customer segments, with particular attention to innovation and value creation for the Partner Banks.

This activity has also regarded the revision, with effect from 1 January 2016, of the pricing structure of the products under direct license, with the goal of providing more opportunities to partner banks to increase the profitability of the e-money sector, extract value across the range of offers in the Issuing segment, and introduce logical segmentation of pricing and “value proposition” in the Acquiring segment.

With reference to the activities of control and commercial stimulus, commercial activities aimed at increasing the dissemination and use of payment instruments have been implemented in cooperation with banks during the year, both on the Issuing and Acquiring side, to support the achievement of the budget targets and enhance synergies with the new pricing structure.

During the year, Bank support activities were renewed. In addition to the work sessions traditionally dedicated to the participation in the initiatives of CartaSi and the training sessions to the Networks, aimed at sharing the value of the offer on e-money, the organization of local road shows was targeted at the consolidation of the relationship, the dialogue among the participants (networking) and the presentation of new mobile payment systems.

Pilot projects on about 25 banks for payments via the Mysi Pay App (through HCE) have taken off.

During the second half, marketing of the new international debit product under license had started, which represents further growth opportunities for Partner Banks in the area of electronic payments, as it allows the banks to offer their customers a payment card to be used on all channels without any credit risk.

The international debit card can also meet the needs of customers in the e-commerce sector: the growth forecasts see a strong acceleration in the use of the product that will generate double the volumes over the next five years.

CartaSi also relaunched its commercial proposition concerning the Issuing and Acquiring activities for third party licensees, extending the content of the model offer under license and the offer of innovative products (HCE, fraud prevention) to customers in servicing and to the management of POS and ATM terminals.

As part of the services for Public Administration, several activities started in 2016, with the aim of placing CartaSi/ICBPI the centre of the digitization process in progress and guide the development of digital payments on this specific segment market.

As for the "Node of Digital Payments", an integration offer has been prepared aimed at both Banks under CartaSi licence and their client Public Entities. Marketing support activities for the Partner Banks were also intensified, in order to include money services within the treasury contracts that are offered to Public Entities.

During the year, a commercial activity dedicated to municipal utilities that deal with public services (utilities, multi-utilities and public transport companies) was also launched.

In 2016, the Company continued the path to innovation and digitalization that had started a few years ago:

- The renewal of the Mysi Mobile App for maximum simplicity in its use for customers, also through innovative biometric identification function (Touch ID).
- The launch of Mysi Pay mobile wallet functions inclusive of new HCE payment service (Host Card Emulation) through partnerships with more than 35 distributing banks to allow the virtualization of the cards and payment with speed and security via smartphone at more than 750,000 contactless POS in Italy.
- The strengthening of Portal Owners, main digital touch point, with the aim

to simplify the user experience by reducing calls to the call centre, and enhance the security features according to recommendations from the new EBA rules on online transactions.

- The relaunch of the IOSI Club, completely renewed and digitized thanks to the new virtual catalogue and gamification features, with a parallel rationalization of costs.
- The creation of the national first system of the "card-linked offer", able to provide customers with personalized offers based on the "big data" of credit cards and their consumption habits, using the mechanics of cashback in partnership with over 30 top retailers.

During 2016, the supervision of ordinary activities was guaranteed, together with support for the finalization of the business projects, quality of service and compliance with banking regulations and circuit.

Finally, with regards to Customer Care, particular attention has been paid to customer satisfaction through the meticulous management of complaints from cardholders and merchants, in compliance with the provisions by the Supervisory Authorities.

In 2016, the CartaSi Purchasing Observatory confirmed its role as an authoritative source of information on the buying behaviour of Italian consumers, evidenced by a constant presence in the Italian media.

HELP LINE S.P.A.

The subsidiary Help Line S.p.A., of which ICBPI holds a 70% stake, reported an EBITDA of Euro 2.6 million.

Income taxes were Euro 0.105 million, therefore, Net Profit reported € 0.032 million.

The Company performs business principally for the ICBPI Group with particular significance for CartaSi, but also works for some major Italian banks, supporting their customers 24 hours a day, 365 days a year.

In 2016, a thorough analysis of the management processes of telephone contacts for CartaSì services was carried out, which revealed a series of initiatives to increase the automatically managed contacts and to improve the internal efficiency in order to reduce costs. During 2017, all actions necessary to make the assumed changes operational should be completed.

OASI S.P.A.

The subsidiary Oasi S.p.A., of which ICBPI owns 100% of the share capital, reported an EBITDA of € 8.7 million, compared to € 7.9 million the previous year (+9.1%).

Operating revenues amounted to € 28.0 million, 4.2% lower over the previous year; Operating costs totalled € 23.4 million, 5.1% lower compared to 2015. Current and deferred tax assets of € 1.4 million lead to a Net Profit of € 2.7 million, lower than that reported in the previous financial year 2015 (9.1%).

The Oasi business was carried out with regularity and consistency with respect to the project plans. New initiatives and services were added to traditional products that contributed to achieve the budget targets.

In particular:

- for regulatory reporting, all the updates provided by the new European supervisory and national regulations have been made. The repository Balances and Supervisory Reporting (B & SR) were completed for outsourced services, with the enhancement of the EBA Data Point Model dedicated to high significant banks. The first delivery project relating to the Common Reporting Standards (CRS) and the platform for reporting details to the Inland Revenue was put into production;
- for the anti-money laundering framework, projects for system integration, expansion of outsourcing services, consultancy for self-assessment of the AML-CFT risks in relation to the requirements of the Bank of Italy were launched;
- for ICT Security, an IT solution on IT Risk Manager for banks was developed, and consulting on cybersecurity was provided;
- for Internal Controls, a model was developed for the integrated management of risk and control (GRC Manager) and the "i-MOG" software was completed relating to the management of the obligations prescribed by the Legislative Decree no. 231/2001.

The company also launched a major project for the innovation of IT solutions for regulatory reporting and anti-money laundering.

OTHER COMPANIES INCLUDED WITHIN THE SCOPE OF CONSOLIDATION

Financial Statement highlights for the other investee companies included within the scope of consolidation follow below.

HI-MTF SIM

The results of operations, before tax (EBIT), amounted to € 0.111 million, a decrease compared to € 0.136 million in 2015. Net profit for 2016 reported € 0.071 million compared to € 0.0875 million the previous year. Total assets amounted to € 6.753 million.

The following table shows the main financial statements indicators for 2016:

ICBPI - HIGHLIGHTS AND MAIN INDICATORS	31/12/2016	31/12/2015	% Change
Statement of financial position highlights (€'000)			
Loans and receivables with customers	2,844,529	3,536,898	- 19.6%
Loans and receivables with banks	747,676	827,652	- 9.7%
Financial assets	3,371,105	2,627,798	28.3%
Tangible/Intangible assets	1,360,544	437,844	210.7%
Total assets	10,662,098	8,174,675	30.4%
Direct funding from customers	6,255,341	4,547,227	37.6%
Indirect funding from customes (assets under administration)	51,660,230	48,605,651	6.3%
Equity	2,059,082	1,144,559	79.9%
Income statement highlights (€'000) (*)			
Net interest income	36,281	55,053	- 34.1%
Net fee and commission income and revenue from services	648,043	620,604	4.4%
Operating income	688,527	680,881	1.1%
Personnel expense	137,919	136,160	1.3%
Operating costs	461,236	480,182	- 3.9%
EBITDA	227,291	200,699	13.2%
Profit for the year	103,998	90,489	14.9%
Structural ratios (%)			
Loans and receivables with customers / Total assets	26.7%	43.3%	
Loans and receivables with banks / Total assets	7.0%	10.1%	
Financial assets / Total assets	31.6%	32.1%	
Direct funding from customers / Total assets	76.5%	55.6%	
Indirect funding from customers / Total funding from customers	89.2%	91.4%	
Profitability ratios (%)			
Profit / (equity - profit) (ROE)	5.3%	10.2%	
Net interest income / Operating income	5.3%	8.1%	
Fee and commission income and revenue from services / Operating income	94.1%	91.1%	
Operating costs / Operating income (Cost income ratio)	67.0%	70.5%	
Credit risk ratios (%)			
Net impaired loans and receivables with customers / Net loans and receivabls with customers	-	-	
Iimpairment losses on loans and receivables with customers/ Gross impaired loans and receivables with customers	92.2%	93.9%	
Total net impaired assets / Equity	0.0%	0.0%	
Productivity indices (€'000)			
Average number of employees (FTE)	1,784	1,810	- 1.4%
Operating income / Average number of employees	386	376	2.6%
EBITDA / Average number of employees	127	111	14.9%
Personnel expense / Average number of employees	77	75	2.7%
Capital ratios (%) (**)			
Own funds	793,727	676,435	17.3%
Risk-weighted assets	3,042,138	3,238,889	- 6.1%
CET 1 capital / Risk-weighted assets (CET1 capital ratio)	26.0%	20.3%	
Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)	26.0%	20.3%	
Total own funds / Risk-weighted assets (Total capital ratio)	26.1%	20.9%	

(*) The economic data are noticed in the reclassified income statement included in the management report.
(**) Capital ratios refer to the scope at consolidation of ICBPI banking group. As explained in the notes of the financial statements Part 'F' Section 2, Icbpi must comply with the previsions of EU Regulation based on the accounting situation referring to the scope of consolidation with the company Mercury UK HoldCo Ltd as the parent.

Dear Shareholders,

FINANCIAL STATEMENT HIGHLIGHTS

a summary of the consolidated results recorded in the accounts at 31 December 2015 is provided below.

The group's financial position and performance are illustrated by the key figures of its statement of financial position and income statement set out below.

Statement of financial position

ASSETS (€'000)	31/12/2016	31/12/2015
Financial assets held for trading	13.2	18.7
Available-for-sale financial assets	3,357.9	2,609.1
Held-to-maturity investments	15.9	31.8
Loans and receivables with banks	747.7	827.7
Loans and receivables with customers	2,844.5	3,536.9
Equity investments	10.1	106.4
Non-current assets	1,350.4	331.4
Non-current assets held for sale and discontinued operations	-	186.2
Other assets	2,322.3	526.5
Total assets	**10,662.1**	**8,174.7**

LIABILITIES (€'000)	31/12/2016	31/12/2015
Due to banks	1,567.1	1,631.8
Due to customers	6,255.3	4,547.2
Other liabilities	710.3	764.7
Post-employment benefits	20.6	21.7
Provisions	37.3	39.1
Equity	1,955.1	1,054.1
Equity attributable to non-controlling interests	12.4	25.6
Profit for the year	104.0	90.5
Total liabilities	**10,662.1**	**8,174.7**

(millions of €)

At 31 December 2016, the bank has total assets of € 10,662.1 million compared to € 8,174.7 million at the end of the previous year.

A glance at the various asset captions shows that:

- **Financial assets held for trading** amount to € 13.2 million against € 18.7 million at 31 December 2015;
- **Available-for-sale financial assets** come to € 3,357.9 million compared to € 2,609.1 million at the end of 2015, mainly consisting of government bonds. The reduction is mainly a result of redemption of certain bonds that reached maturity net of new acquisitions and the transfer from the Equity investments of Equens shares;
- **Held-to-maturity investments** amount to € 15.9 million and comprise bank bonds (31 December 2015: € 31.8 million). The reduction is mainly a result of redemption of certain bonds that reached maturity;
- **Loans and receivables with banks** amount to € 747.7 million compared to € 827.7 million at the previous reporting date. The reduction is principally due to the lower deposits and joint accounts with banks at the reporting date;
- **Loans and receivables with customers** amount from € 2,844.5 million compared to € 3,536.9 million at 31 December 2015. The decrease is due to lower deposits and joint accounts with customers and to the reduction of reverse repos in place with customers at the reporting date;
- **Equity investments** come to € 10.1 million compared to € 106.4 million at the previous year-end. The reduction is due to the transfer to the Available for sale financial assets of Equens shares due to the end of the project "Tulipe" which decreases the bank's investment from 20% to 5.76%;
- **Non-current assets** amount to € 1,350.4 million against € 331.4 million at 31 December 2015. The increase is due mainly to the effects of the reverse merger with Mercury Italy S.r.l. that led to the entry of a new goodwill;
- **Other assets** of € 2,322.3 million (31 December 2015: € 526.5 million) include cash and cash equivalents of € 1,798.8 million, tax assets of € 78.1, including deferred tax assets of 55.2 million, and other assets of € 445.4 million. The increase mainly refers to the greater liquidity deposited with central banks.

With respect to liabilities:

- **Due to banks** amounts to € 1,567.1 million compared to € 1,631.8 million at 31 December 2015;
- **Due to customers comes** to € 6,255.3 million against € 4,547.2 million at the previous year-end. The increase is mostly due to the higher volume of funding from customers compared to 31 December;

- **Other liabilities** amount to € 710.3 million compared to € 764.7 million at 31 December 2015 and include financial liabilities held for trading of € 8.1 million, tax liabilities of € 56.1 million and other liabilities of € 646.2 million. The decrease is attributable to the lower amounts in suspense accounts at 31 December 2016, relating to the execution of payment orders;
- **Post-employment benefits** total € 20.6 million compared to € 21.7 million at the end of 2015;
- **Provisions** amount to € 37.3 million against € 39.1 million at 31 December 2015;
- **Equity attributable to the owners of the parent** comes to € 1,955.1 million compared to € 1,054.1 million at the previous year-end. The variation is the result of decrease in reserves due to allocation of the 2015 profit, surplus of its extraordinary fusion operation with Mercury Italy S.r.l. and the decrease in the fair value reserve.
- **Equity attributable to non-controlling interest** decreased from € 25.6 million at 31 December 2015 to € 12.4 million.

Income statement

The December 31st 2016 figures are compared to the budget at the same date and to same period last year in the following table.

The economic effects related to the reverse merger of Mercury Italy S.r.l. were allocated in specific items below the EBITDA.

The consolidate profit an EBITDA of € 227.291 million compared to € 200.699 million at 31 December 2015 (+13.2%) and a profit of € 103.998 million (2015: € 90.489 million).

INCOME STATEMENT

Dati al 31 dicembre YTD (€/000)	2016 Year	2015 Year	% change
Net fee and commission income	648,043	620,604	4.4%
Net interest income	36,281	55,053	- 34.1%
Net trading/hedging income	3,676	4,738	- 22.4%
Dividends from equity investments and AFS	527	485	8.6%
Operating revenue	**688,527**	**680,881**	**1.1%**
Payroll and related costs	- 137,919	- 136,160	1.3%
Production costs	- 91,045	- 100,770	- 9.7%
ICT costs	- 186,151	- 191,836	- 3.0%
General expenses	- 37,580	- 43,237	- 13.1%
Administrative expenses	**- 452,695**	**- 472,002**	**- 4.1%**
Other net operating expenses/income	3,280	5,185	- 36.7%
Net accruals for risks and charges	- 11,820	- 13,365	- 11.6%
Operating costs (net of DA)	**- 461,236**	**- 480,182**	**- 3.9%**
EBITDA	**227,291**	**200,699**	**13.2%**
Depreciation and amortization	- 36,643	- 32,322	13.4%
Depr.&Amort. (customer contract)	- 10,523	- 10,523	-
Share of gains/losses of investees	18	- 4	- 530.2%
Non recurring/extraordinary items	- 55,291	- 16,237	240.5%
Income taxes	- 19,268	- 46,407	- 58.5%
Profit to non-controlling interests	- 1,586	- 4,717	- 66.4%
Group Net profit	**103,998**	**90,489**	**14.9%**

With respect to the **operating revenue**:

- **Net fee and commission income and revenue from services** amount to € 648.043 million, up on the same period of previous year figure of € 620.604 million (+4.4%);
- **Net interest income** come to € 36.281 million for 2016 decreased from € 55.053 million for 2015 (-34.1%);
- **Gains on securities and net exchange rate gains** amounts to € 3.676 million compared to € 4.738 million on same period last year (-22.4%);
- **Dividends from equity investment** amounts to € 0.527 million compared compared to € 0.485 million on same period last year (+8.6%);

With respect to the **Operating costs**:

- **Payroll and related costs** amounts to € 137.919 million compared to € 136.160 million for 2015 (+1.3%);
- **Production costs** come to € 91.045 million against € 100.77 million of the same period of last year (-9.7%);
- **ICT costs** amounts to € 186.151 million decreased from € 191.836 million for the previous year (-3.0%);
- **General expenses** amount to € 37.580 million against decreased from € 43.237 million of the same period of last year (-13.1%);
- **Other operating income**, net amounts to € 3.280 million compared million of to € 5.185 million for 2015;
- **Net accruals for risk and charge** amounts to € 11.820 million against from € 13.365 million for 2015 (-11.6%);

Operating costs thus come to € 461.236 million compared to € 480.182 million for the same period of last year (-3.9%).

EBITDA thus come to € 227.291 million compared to € 200.699 million for 2015 (+13.2%).

The **depreciation and amortization** increased to € 36.643 million from to € 32.322 million for 2015.

The **amortisation** of depository services customer contracts amounts to €10.523.

The **share of gains** of investees amounts to € 0.018 million.

The following other negative non-recurring components amount to € 55.291 million including:

- cost for the National Resolution Fund € 4.5 million;
- cost of Transformation program Advisory of € 33.5 million;
- POS sale € 1.4 million;
- restructuring costs of € 15.9 million;
- losses of investees of € 2.0 million;
- costs following the tax ruling C-Card/Cedacri of € 1.7 million;
- income from the settlement of a dispute € 1.8 million;
- other negative items of € 0.9 million.

These components, net of income taxes amounting to € 19,268 million due Ace arising from the merger of Mercury Italy S.r.l., led to a profit after taxes of € 103.998 million.

FORECAST DEVELOPMENT OF MANAGEMENT

There are widespread expectations that 2017 will be a year of moderate recovery in the global economy and for the Eurozone.

In 2017, the ICBPI Group's priority will be to implement the actions envisaged in the new 2017-2021 Business Plan approved on 9 February 2017.

IMPAIRMENT OF ASSETS

It should be noted that the Explanatory Notes report the information requested by the joint document of the Bank of Italy/Consob/Isvap no. 2 of 6 February 2009 and no. 4 of 3 March 2010 in relation to the valuation process of the assets subject to a potential impairment (impairment test) and relative to base assumptions, methodologies and utilized parameters..

In addition, and in relation to disclosure, the Explanatory Notes report fundamental information on the following elements:

- definition of cash generating units (CGUS);
- allocation of goodwill to each CGU;
- illustration of the criterion used to estimate the recoverable value when the latter is based on value in use;
- illustration of the criterion used to estimate the recoverable value when the latter is based on the fair value;
- description of the sensitivity analysis of the impairment test results with respect to changes in the underlying assumptions;
- remarks on the potential presence of external indicators of impairment and in the absence of write-downs of assets following the impairment procedure.

INFORMATION ON FINANCIAL RISKS

Information on the nature and extent of financial risks to which the Group is exposed is provided below.

CREDIT RISK

For more information of the exposure of the Parent Company ICBPI to this risk as a "second level bank", refer to the relative section of the individual financial statements.

CartaSi, instead, is exclusively exposed to credit risk in relation to the issue of cards with the "Direct Issuing" modality and in connection to which there is an actual lending process and continual oversight over credit risk. The other types of credit originate from operational anomalies in the following activities:

- Bank issuing where there may be debits on blocked cards and for which the bank, following the reporting of the blockage, is no longer exposed to the relative credit risk;
- Acquiring, e.g. re-debiting to merchants following disputes or the failure to pay commissions on the part of the merchants themselves.

MARKET RISK

Given that this risk is exclusively applicable to the Parent Company, the exposure to this risk is illustrated in the relative section of the individual financial statements.

LIQUIDITY RISK

Liquidity is managed in a centralized manner by ICBPI for all companies of the Group; as a result, exposure to liquidity risk is illustrated in the relative section of the individual financial statements.

INTEREST RATE RISK

Interest rate risk is managed in a centralized manner by ICBPI for the entire banking group; as a result, exposure to this risk is illustrated in the relative section of the individual financial statements.

BUSINESS CONTINUITY

Considering the following indicators pertaining to the Parent Company and the Group companies:

Financial indicators

- there was no situation involving a capital deficit or net negative working capital;
- there were no loans with fixed or upcoming expiration dates without positive prospects of renewal or reimbursement; there is not an excessive dependency on short-term loans to finance long-term activities;
- there are no indications of cessation of financial support from financing entities and other creditors;
- there are no past or pro-forma financial statements reporting negative cash flows;
- the primary economic-financial indices are not negative;

- there were no significant operational losses or significant impairments of assets generating cash flows;
- there was no lack or discontinuity in the distribution of dividends;
- the capacity to pay debts on expiration dates exists;
- the capacity to comply with the contractual clauses of loans exists

Management indicators

- there was no situation involving a capital deficit or net negative working capital;
- there were no loans with fixed or upcoming expiration dates without positive prospects of renewal or reimbursement; there is not an excessive dependency on short-term loans to finance long-term activities;

Other indicators

- there were no share capital decreases below legal limits or which were not in compliance with other legal norms;
- there were no legal and fiscal disputes which, in the case of a loss, could result in obligations of reimbursement that the companies of the Group are not capable of respecting;
- there were no legislative changes or government policies which could result in unfavourable effects to the companies of the Group,
- the Directors confirm the reasonable expectation that the Group will continue its operations in the near future and that, as a result, the financial statements for the year 2016 have been drafted from the perspective of business continuity. Thus, they have not noticed symptoms within the assets and financial structure of the group and in operational trends that could constitute cause for uncertainty on business continuity.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

During the meeting of 9 February 2017, the Board of Directors of the Parent Company approved the ICBPI Group 2017/2021 Business Plan, which is based on guidelines that had already been discussed and approved by the advisory board on 22 June 2016.

The ambition of this Plan is to make the Group a national leader in digital payments, reaching the scale necessary to invest in technology, services, and know-how with the aim to grow faster than the market, lead the development of digital payments in Italy together with partner banks and pursue, in particular, a significant increase in profitability.

This growth strategy will focus on payments and will be organized around four key pillars:

1. Organic growth in the different business units through real product leadership and customer experience together with partner banks, accelerating the transition from cash to digital payments;
2. Inorganic growth with targeted acquisitions in the payments industry to promote faster growth of scale and the development of know-how;
3. Strong investment in technological excellence, know-how, commercial area and in partnership with banks;
4. Focus on efficiency and on concentration of resources to finance investment, significantly reducing costs in areas with lower growth impact, and the disposal of non-core assets.

Milan, 21 March 2017

The Board of Directors

Consolidated Statement of Financial position

at 31 december 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	ASSETS	31/12/2016		31/12/2015	
10.	Cash and cash equivalents		**1,798,784**		**22,389**
20.	Financial assets held for trading		**13,193**		**18,739**
40.	Available-for-sale financial assets		**3,357,912**		**2,609,059**
50.	Held-to-maturity investments		**15,933**		**31,784**
60.	Loans and receivables with banks		**747,676**		**827,652**
70.	Loans and receivables with customers		**2,844,529**		**3,536,898**
100.	Equity investments		**10,105**		**106,417**
120.	Property, equipment and investment property		**185,112**		**170,444**
130.	Intangible assets		**1,165,327**		**160,983**
	including goodwill	1,064,160		77,727	
140.	Tax assets		**78,149**		**63,502**
	a) current	22,985		10,386	
	b) deferred	55,164		53,116	
	including convertible into tax assets (Law no. 214/2011)	40,344		40,560	
150.	Non-current assets held for sale and discontinued operations		**-**		**186,206**
160.	Other assets		**445,378**		**440,602**
	Total assets		**10,662,098**		**8,174,675**

(€'000)

	LIABILITIES	31/12/2016		31/12/2015	
10.	Due to banks		**1,567,113**		**1,631,798**
20.	Due to customers		**6,255,341**		**4,547,227**
40.	Financial liabilities held for trading		**8,067**		**4,907**
80.	Tax liabilities		**56,062**		**52,160**
	a) current	16,732		-	
	b) deferred	39,330		52,160	
100.	Other liabilities		**646,141**		**707,589**
110.	Post-employment benefits		**20,596**		**21,677**
120.	Provision for risks and charges		**37,317**		**39,125**
	a) pension and similar obligations	940		978	
	b) other provisions	36,377		38,147	
140.	Valuation reserves		**65,863**		**232,373**
170.	Reserves		**1,698,454**		**630,930**
180.	Share premium		**148,242**		**148,242**
190.	Share capital		**42,557**		**42,557**
200.	Treasury shares (-)		**-32**		**-32**
210.	Equity attributable to non-controlling interests (+/-)		**12,379**		**25,633**
220.	Profit for the period (+/-)		**103,998**		**90,489**
	Total liabilities and equity		**10,662,098**		**8,174,675**

(€'000)

CONSOLIDATED INCOME STATEMENT

	INCOME STATEMENT	2016	2015
10.	Interest and similar income	**65,095**	**74,510**
20.	Interest and similar expense	**-28,119**	**-23,262**
30.	Net interest income	**36,976**	**51,248**
40.	Fee and commission income	**984,073**	**1,054,145**
50.	Fee and commission expense	**-573,587**	**-669,701**
60.	Net fee and commission income	**410,486**	**384,444**
70.	Dividends and similar income	**116**	**237**
80.	Net trading income	**3,672**	**4,726**
100.	Profit (loss) on disposal or buy-back of:	**300**	**-**
	b) avaible for-sale financial assets	300	-
120.	Total income	**451,550**	**440,655**
130.	Net impairment losses on:	**-4,458**	**-7,304**
	a) loans and receivables	-2,246	-2,599
	b) available-for-sale financial assets	-2,212	-227
	c) held-to-maturity investments	-	-4,478
140.	Net financial income	**447,092**	**433,351**
180.	Administrative expenses:	**-557,545**	**-531,550**
	a) personnel expenses	-155,608	-139,368
	b) other administrative expenses	-401,937	-392,182
190.	Net accruals to provisions for risks and charges	**-2,981**	**-13**
200.	Depreciation and net impairment losses on property, equipment and investment property	**-23,328**	**-21,711**
210.	Amortisation and net impairment losses on intangible assets	**-23,838**	**-21,134**
220.	Other operating income, net	**285,434**	**282,674**
230.	Operating costs	**-322,258**	**-291,734**
240.	Share of profits of investees	**18**	**-10**
270.	Net gains on sales of investments	**-**	**6**
280.	Pre-tax profit from continuing operations	**124,852**	**141,613**
290.	Income taxes	**-19,268**	**-46,407**
300.	Post-tax profit from continuing operations	**105,584**	**95,206**
320.	Profit for the period	**105,584**	**95,206**
330.	Profit for the period attributable to non-controlling interests	**-1,586**	**-4,717**
340.	Profit for the period attributable to the owners of the parent	**103,998**	**90,489**

(€'000)

STATEMENT OF COMPREHENSIVE INCOME

		2016	2015
10.	Profit for the period	105,584	95,206
Items, net of tax, that will not be reclassified subsequently to profit or loss			
40.	Defined benefit plans	501	623
Items, net of tax, that will be reclassified subsequently to profit or loss			
100.	Available-for-sale financial assets	-3,608	166,083
130.	Other comprehensive income (expense), net of tax	-3,107	166,706
140.	Comprehensive income (10 + 130)	102,477	261,912
150.	Comprehensive income attributable to non-controlling interests	1,635	14,543
160	Comprehensive income attributable to the owners of the parent	100,842	247,369

(€'000)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Balance at 31.12.2014	Change to opening balances	Balance at 1.1.2015	Allocation of prior year profit: Reserves	Allocation of prior year profit: Dividends and other allocations	Changes for the year: Changes in reserves	Changes for the year: Equity transactions: Issue of new shares	Changes for the year: Equity transactions: Repurchase of treasury shares	Changes for the year: Equity transactions: Extraordinary dividend distribution	Changes for the year: Equity transactions: Change in equity instruments	Changes for the year: Equity transactions: Derivatives on treasury shares	Changes for the year: Equity transactions: Stock options	Changes for the year: Equity transactions: Variation in ownership interests	Changes for the year: 2015 comprehensive income	Equity attributable to the owners of the parent at 31.12.2015	Equity attributable to non-controlling interests at 31.12.2015
Share capital:																
a) ordinary shares	46,387	-	46,387	-	-	-1,342	-	-	-	-	-	-	-	-	42,557	2,488
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	148,410	-	148,410	-	-	-54	-	-	-	-	-	-	-	-	148,242	114
Reserves:																
a) income-related	576,918	-	576,918	80,189	-	-24,256	-	-	-	-	-	-	-	-	620,082	12,768
b) other	10,848	-	10,848	-	-	-	-	-	-	-	-	-	-	-	10,848	-
Valuation reserves	75,376	-	75,376	-	-	-4,164	-	-	-	-	-	-	-	166,706	232,372	5,546
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interim dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-32	-	-32	-	-	-	-	-	-	-	-	-	-	-	-32	-
Profit for the year	99,607	-	99,607	-80,189	-19,419	-	-	-	-	-	-	-	-	95,206	90,489	4,717
Equity attributable to the owners of the parent	927,757	-	927,757	-	-17,023	-13,545	-	-	-	-	-	-	-	247,369	1,144,559	-
Equity attributable to non-controlling interests	29,757	-	29,757	-	-2,396	-16,271	-	-	-	-	-	-	-	14,543	-	25,633

(€'000)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

				Allocation of prior year profit		Changes for the year										
							Equity transactions									
	Balance at 31.12.2015	Change to opening balances	Balance at 1.1.2016	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options	Variation in ownership interests	2015 comprehensive income	Equity attributable to the owners of the parent at 31.12.2016	Equity attributable to non-controlling interests at 31.12.2016
Share capital:																
a) ordinary shares	45,045	-	45,045	-	-	-1,139	-	-	-	-	-	-	-	-	42,557	1,349
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	148,356	-	148,356	-	-	-46	-	-	-	-	-	-	-	-	148,242	68
Reserves:																
a) income-related	632,850	-	632,850	2,380	-	1,062,159	-	-	-	-	-	-	-	-	1,687,606	9,782
b) other	10,848	-	10,848	-	-	-	-	-	-	-	-	-	-	-	10,848	-
Valuation reserves	237,918	-	237,918	-	-	-168,898	-	-	-	-	-	-	-	-3,107	65,863	50
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interim dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-32	-	-32	-	-	-	-	-	-	-	-	-	-	-	-32	-
Profit for the year	95,206	-	95,206	-2,380	-92,826	-455	-	-	-	-	-	-	-	105,584	103,998	1,130
Equity attributable to the owners of the parent	1,144,559	-	1,144,559	-	-90,363	904,047	-	-	-	-	-	-		100,842	2,059,084	-
Equity attributable to non-controlling interests	25,633	-	25,633	-	-2,463	-12,426	-	-	-	-	-	-	-	1,635	-	12,379

(€'000)

STATEMENT OF CASH FLOWS: INDIRECT METHOD

A. OPERATING ACTIVITIES	2016	2015
1. Operations	**176,002**	**191,591**
- profit for the year	103,998	90,489
- net gains on financial assets held for trading and	37	
financial assets/liabilities at fair value through profit or loss	-	55
- net impairment losses	4,458	7,077
- net impairment losses on property, equipment and investment property and intangible assets	47,166	42,845
- net accruals to provisions for risks and charges and other costs/revenues	2,981	13
- unpaid taxes and duties	19,268	46,407
- other adjustments	-1,906	4,705
2. Cash flows generated by financial assets	**406,319**	**40,330**
- financial assets held for trading	5,509	788
- financial assets at fair value through profit or loss	209,225	
- available-for-sale financial assets	-615,642	-74,019
- loans and receivables with banks: on demand	80,010	-216,970
- loans and receivables with banks: other	-	
- loans and receivables with customers	690,123	315,470
- other assets	37,094	15,061
3. Cash flows used by financial liabilities	**1,254,874**	**-139,865**
- due to banks: on demand	-73,454	-870,702
- due to banks: other	-	
- due to customers	1,708,114	1,447,687
- securities issued	-	-
- financial liabilities held for trading	3,160	-1,256
- financial liabilities at fair value through profit or loss	-	
- other liabilities	-382,946	-715,594
Net cash flows generated by (used in) operating activities A	**1,837,195**	**92,056**
B. INVESTING ACTIVITIES		
1. Cash flows generated by		
- sales of equity investments	-	
- dividends from equity investments	415	259
- sales/repayments of HTM investments	16,000	10,000
- sales of property, equipment and investment property	2,731	
- sales of subsidiaries and business units	-	
2. Cash flows used to acquire		
- equity investments	-	-
- HTM investments	-	-
- property, equipment and investment property	-26,481	-19,035
- intangible assets	-41,556	-12,191
- subsidiaries and business units	0	-29,819
Net cash flows used in investing activities B	**-48,890**	**-50,786**
C. FINANCING ACTIVITIES		
- issue/repurchase of treasury shares	-	
- issue/purchase of equity instruments		
- dividends and other distributions	-11,910	-19,418
Net cash flows used in financing activities C	**-11,910**	**-19,418**
NET CASH FLOWS FOR THE YEAR D=A+/-B+/-C	**1,776,395**	**21,853**
RECONCILIATION		
Financial statements captions		
Opening cash and cash equivalents	22,389	536
Net cash flows for the year	1,776,395	21,853
Closing cash and cash equivalents G=E+/-D+/-F	**1,798,784**	**22,389**

(€'000) *key (+) generated (-) used*

Notes to the Consolidated financial statements

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Part A - Accounting policies

A.1 - GENERAL PART

Section 1 – Statement of compliance

Pursuant to Regulation (EC) no. 1606 of 19 July 2002, the Istituto Centrale delle Banche Popolari Italiane Group (ICBPI group) has prepared these consolidated financial statements 30 September 2016 in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission. They were introduced into Italian law with Legislative decree no. 38/2005.

The group applied the IFRS enacted at 31 December 2016 and Bank of Italy's instructions about financial statements issued in its Measure of 22 December 2005, the related Circular no. 262 and subsequent amendments.

It did not make any departures from the IFRS.

Section 2 – Basis of presentation

The consolidated financial statements at 31 December 2016 comprise a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and these notes. They are accompanied by a directors' report which comments on the group's performance, its results of operations and financial position.

The group's presentation currency is the Euro and the amounts shown in the consolidated financial statements and these notes are in thousands of Euros.

The group has applied the recognition and measurement criteria established by the IFRS endorsed by the European Commission and the general assumptions in the Framework for the preparation and presentation of financial statements issued by the IASB.

The following paragraphs illustrate the amendments made to several accounting standards issued by the IASB and validated by the European Commission, which were applicable on a mandatory basis from FY 2016:

- Regulation no. 2343 of 15 December 2015 – "Annual Improvements - 2012-2014 Cycle" (IFRS 5, IFRS 7 and IAS 19, IAS 34) and Regulation no. 28/2015 of 17 December 2014 – "Annual Improvements - 2010-2012 Cycle" (IFRS 2, IFRS 3, IFRS 8 and IAS 16, IAS 24). The amendments introduced provide several clarifications that seek to resolve some inconsistencies or illustrate methods.
- Regulation no. 29/2015 of 17 December 2014 – IAS 19 "Employee Benefits". The aim of the

amendment is to clarify, also by means of application guidelines, how the contributions provided by employees or by third parties should be recorded in the accounts, based on the distinction as to whether or not they are envisaged in the formal conditions of defined benefit plans, and whether or not they are related to the number of years in service.

- Regulation no. 2173 of 24 November 2015 - IFRS 11 "Joint Arrangements". The changes to standard IFRS 11 establish the accounting principles for the acquisition of a "Joint Operation" that represents a business activity, pursuant to IFRS 3.
- Regulation no. 2231 of 2 December 2015 – IAS 16 "Property, plant and equipment", IAS 38 "Intangible assets". Clarifications are provided on the depreciation and amortisation methods considered acceptable. More specifically, it is established that a depreciation/amortisation approach based on the revenues generated by a business activity that reflects the use of a tangible or intangible asset is not appropriate, insofar as said revenues generally reflect other factors beyond the use of the economic benefits of the asset.
- Regulation no. 2406 of 18 December 2015 – IAS 1 "Presentation of Financial Statements". The amendment, entitled "Disclosure initiative" seeks to improve the effectiveness of financial statement disclosures, by encouraging the application of professional judgement to decide what information to disclose, in terms of materiality and means of aggregation.
- Regulation n. 2016/1703 of 22 September 2016 - Amendments to IFRS 10, 12 e IAS 28 "Investment Entities–Applying the Consolidation Exception". The amendments are designed to clarify the requirement for investment entities to measure subsidiaries at fair value instead of consolidating them.

The application of the above-illustrated amendments did not have any significant impact on the Financial Statements.

The following table shows the new standards or amendments with the related endorsement regulations. Their application is mandatory from 1 January 2017 (for entities whose reporting period is the calendar year) or subsequently.

Endorsement regulation	Name	Standard/Interpretation	Year of application
2016/2067	IFRS 9	Financial Instruments	2018
2016/1905	IFRS 15	Revenue from contracts with customers	2018

With reference to IFRS 9, ICBPI Group, over the course of the last quarter 2015, has launched projects in order to identify the main areas impacted and to establish the reference method framework for the classification, measurement and impairment of financial assets. More specifically:

- Classification and Measurement: the reference Business Models are going to be established and has been conducted an analyses of the stock of financial assets that do not envisage any significant impact from reclassification with respect to the current Accounting Standard IAS 39; in particular, given the reference business models, the trading portfolio will not suffer any substantial changes. The financial assets available for sale (AFS), may have to be measured at fair value and be transferred to the income statement given the fact that several financial assets in the above-cited portfolio, based on their characteristics, do not pass the so-called "Solely Payment of Principal and Interest" test (SPPI test). The Loans and Receivables Portfolio should not be reclassified;

- Impairment: given the characteristic of the loan portfolio, that mainly include current account related to the payment and the security services provided by ICBPI and short term loans related to the e-money services provided by the Group, we do not expect any significant impacts.

Lastly, the amendment related to Hedge accounting and the accounting treatment of "own credit risk" will not have any impact because this cases are not present.

With reference to IFRS 15, they are being analyzed potential impacts and based on the results of the checks carried out to date, they should be irrelevant.

The next table shows the standards for which amendments were issued, specifying the scope of or object for such amendments.

Standards	Name	Publication date
IFRS 14	Regulatory Deferral Accounts	30/01/2014
IFRS 16	Leases	13/01/2016
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	11/09/2014

As none of them have been endorsed by the European Commission, they did not affect the bank's 2016 separate financial statements.

The group applies the measurement criteria assuming that it will continue as a going concern and in accordance with the principles of accruals, materiality and significance of the financial data and the principle of substance over form.

The consolidated financial statements and the notes present corresponding prior year figures.

The directors' report and these notes include all the information required by the IFRS, the law and Bank of Italy, as well as additional disclosures which are not mandatory but are deemed useful to give a true and fair view of the group's financial position and results of operations.

Basis of presentation of the consolidated financial statements

Statement of financial position, income statement and statement of comprehensive income

They comprise captions, subcaptions and additional information. Revenue is shown without a plus sign while costs are shown with a minus sign in the income statement.

Statement of changes in equity

This statement shows changes in equity during the year split between share capital, equity-related reserves, income-related reserves, valuation reserves and the profit (loss) for the year. Treasury shares are offset against equity. The parent has not issued equity instruments other than ordinary shares.

Basis of presentation of the notes

These notes include the information required by Bank of Italy's Circular no. 262/2005 and the additional information required by the IFRS.

The accounting policies described below have been adopted to disclose all the information in the consolidated financial statements.

Section 3 – Basis of consolidation

The group has established the consolidation scope in accordance with IFRS 10 - Consolidated financial statements. Accordingly, the concept of control is fundamental to consolidation of all types of entities. It exists when the investor concurrently:

- has power over the investee
- is exposed, or has rights, to variable returns from its involvement with the investee;
- has the ability to affect those returns through its power over the investee.

Therefore, the group consolidates all types of entities when all three control elements exist.

When an entity is directed mainly through exercise of voting rights, control exists when the investor holds more than half the voting rights.

In other cases, the assessment of control is more complex and requires the greater use of judgement as it is necessary to consider all the factors and circumstances that give control over the investee (de facto control).

In the case of the ICBPI Group, all the consolidated entities are directed mainly through voting rights. Accordingly, the group did not have to exercise special judgements or make significant assumptions in order to establish the existence of control over subsidiaries and significant influence over associates.

The financial statements at 31 December 2016 of the parent and consolidated companies were used for consolidation purposes, after being reclassified and adjusted to comply with the consolidation requirements and the IFRS.

Investments in subsidiaries are consolidated by combining the captions of the statement of financial position and income statement on a line-by-line basis, making the following adjustments:

(a) the carrying amount of the parent's investment in each subsidiary and the parent's portion of

equity of each subsidiary are eliminated;

(b) the equity and profit or loss attributable to non-controlling interests are recognised separately.

Positive differences arising from the above adjustments are recognised as goodwill in caption "130 Intangible assets" at the date of first consolidation after allocation to the subsidiary's assets and liabilities. Any negative differences are recognised in profit or loss.

Intragroup assets and liabilities, off-statement of financial position transactions, income and expense and profits and losses among the consolidated companies are eliminated.

The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date. The income and expense of a subsidiary that is sold are included in the income statement up to the sales date, i.e., until the date when the parent ceases to control the subsidiary.

Pursuant to IAS 28, the consolidated financial statements also include the results of associates, i.e., entities over which the group has significant influence and the power to participate in directing its financial and operating policies without having control or joint control. These investments are measured using the equity method which entails the initial recognition of the investment at cost and its subsequent measurement using the equity method. The group's share of the associate's profit or loss is recognised separately in the income statement.

The difference between the investment's carrying amount and the group's share of its equity is included in the investment's carrying amount.

If there is indication of impairment, the group estimates the investment's recoverable amount, considering the discounted future cash flows that the investee may generate, including the investment's costs to sell. When the recoverable amount is less than the investment's carrying amount, the difference is recognised in profit or loss.

At present, the group is not a party to joint arrangements as defined by IFRS 11 in the form of joint ventures (the ventures have rights to the arrangement's net assets).

1. Investments in fully controlled subsidiaries

	Operating office	Registered office	Type of relationship (1)	Investment		Voting rights % (2)
				Investor	Investment %	
1. Oasi-Diagram SpA	Milan	Milan	1	Istituto Centrale delle Banche Popolari Italiane	100.00	100.00
2. CartaSi SpA	Milan	Milan	1	Istituto Centrale delle Banche Popolari Italiane	98.74	98.74
3. Help Line SpA	Cividale del Friuli / Milan	Cividale del Friuli	1	Istituto Centrale delle Banche Popolari Italiane	70.00	70.00

Key

(1) Type of relationship:

1 = majority of voting rights at ordinary shareholders' meetings

2 = dominant influence at ordinary shareholders' meetings

3 = shareholder agreements

4 = other forms of control

5 = single management as per art. 26.1 of Legislative decree no. 87/92

6 = single management as per art. 26.2 of Legislative decree no. 87/92

(2) Voting rights at ordinary shareholders' meetings, differentiating between effective and potential voting rights

The ICBPI banking group includes the following companies:

- Oasi Diagram - Outsourcing Applicativo e Servizi Innovativi S.p.A., operating company;
- Help Line S.p.A., operating company;
- CartaSi S.p.A., financial company included in the register of payment institutes as per article 114-septies of the Consolidated Banking Act;

As well as the above consolidated banking group companies, the group includes the following equity-accounted associates at 31 December 2016:

- HI-mtf S.p.A., in which the parent has a 25% interest, equity-accounted;

- Unione Fiduciaria S.p.A., in which the parent has a 24% interest, equity-accounted.

2. Significant judgements and assumptions applied to define the consolidation scope

As stated above and given the group's current structure, where control is principally based on voting rights held, there were no situations that would have made it necessary to make specific judgements or make significant assumptions to define the consolidation scope.

This is also true for the associates, where significant influence is basically attributable to the voting rights held by the group.

3. Investments in consolidated companies with significant non-controlling interests

3.1 Non-controlling interests, their voting rights and dividends distributed to them

	Investment %	**Voting rights % (1)**	**Dividends**
1. Help Line SpA	30%	30%	-

(1) availability of votes at ordinary shareholders' meetings

3.2 Investments with significant non-controlling interests: financial information

	Total assets	Cash and cash equivalents	Financial assets	Property, equipment and investment property and intangible assets	Financial liabilities	Equity	Net interest expense	Total expense	Operating costs	Pre-tax profit from continuing operations	Post-tax profit from continuing operations	Profit for the year (1)	Other comprehensive income, net of income taxes (2)	Comprehensive income (3) = (1) + (2)"
1. Help Line SpA	22,600,028	927		7,051,897		8,510,924	-384	-384	137,510	137,126	32,057	32,057	26,045	58,102

4. Significant restrictions

There are no significant restrictions to the exercise of voting rights for the investments in subsidiaries and associates.

5. Other information

Given the group's structure, there is no other information that needs to be disclosed.

Section 4 – Events after the reporting period

No events took place after the reporting date that would have had a significant effect on the group's financial position, results of operations or cash flows or that would have required adjustments to the financial statements captions.

Section 5 – Other aspects

There is no other information that needs to be disclosed, including with respect to the Bank of Italy / Consob / IVASS document no. 6 of 8 March 2013.

A.2 - KEY FINANCIAL STATEMENTS CAPTIONS AT 31 DECEMBER 2016

1 - Financial assets held for trading

Classification
A financial asset is classified as held for trading if it is:

- acquired principally for the purpose of selling it in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for a derivative that is an effective hedging instrument).

Derivatives are recognised under assets when they have a positive fair value and under liabilities when they have a negative fair value.

Recognition
Debt and equity instruments are recognised at their settlement date while derivatives are recognised at their trading date.

Financial assets held for trading are initially recognised at fair value, which is usually the transaction price, net of any directly attributable transaction costs.

Measurement
After initial recognition, financial assets held for trading are measured at fair value. Any resulting fair value gains or losses are recognised in caption 80 "Trading income (expense)" of the income statement. Interest accrued on these assets is recognised in caption 10 of the income statement "Interest and similar income", although interest and/or other income and expense on trading derivatives are recognised in caption 80 "Trading income (expense)" of the income statement.

Section 17 - Other information provides information on the calculation of fair value of listed financial instruments. Equity instruments and derivatives hedging equity instruments are maintained at cost when it is not possible to calculate their fair value reliably.

Derecognition
Financial assets or parts of financial assets are derecognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

2 - Available-for-sale financial assets

Classification
This category includes non-derivative financial assets that are not classified as loans and receivables, financial assets held for trading, held-to-maturity investments or financial assets at fair value through profit or loss.

Recognition
They are initially recognised at the settlement date and measured at fair value, which includes the directly related transaction costs.

Measurement
AFS financial assets are subsequently measured at fair value with recognition of amortised cost in profit or loss and the fair value gains or losses in a specific equity reserve until the asset is derecognised or an impairment loss is recognised. Gains or losses recognised in equity are reclassified to profit or loss when the asset is sold.

Realised gains or losses are recognised in caption 100 "Net profit (loss) on sale or repurchase" of the income statement.

Fair value is calculated using the same criteria applied to financial assets held for trading.

Equity instruments included in this category and derivatives hedging equity instruments are maintained at cost when it is not possible to calculate their fair value reliably.

The group tests its assets for impairment at each reporting date. When there is a significant or prolonged decline in fair value, the group recognises it in profit or loss as the difference between the asset's carrying amount (acquisition cost net of impairment losses already recognised in profit or loss) and fair value. Fair value losses are significant when they exceed 20% of the cost and prolonged if they have existed for over nine months.

If the fair value of a debt instrument increases in a subsequent period and this increase is objectively due to an event that took place in a period after that in which the impairment loss was recognised in profit or loss, the impairment loss is reversed and the related amount is recognised in the same income statement caption. The reversal may not generate a carrying amount higher than that which would have been obtained by measuring that asset at amortised cost had the loss not been recognised. Impairment losses on shares, recognised in profit or loss, cannot be reversed through profit or loss but only directly through equity.

Derecognition
Financial assets or parts of financial assets are derecognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

3 - Held-to-maturity investments

Classification
This category includes debt instruments with fixed or determinable payments and fixed maturities that the group has the ability and intention to hold to maturity. If it is no longer appropriate to maintain an asset as classified as held to maturity following a change in the group's intentions or ability, it is reclassified to "AFS financial assets".

Recognition
HTM investments are initially recognised at cost, being the fair value of the amount traded, including any directly related costs and income.

Measurement
After initial recognition, HTM investments are measured at amortised cost using the effective interest method. Fair value gains or losses are recognised in profit or loss when the investments are derecognised.

At each reporting date, the group tests the HTM investments for impairment. The impairment loss, if any, is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate.

Impairment losses are recognised in profit or loss. When the reasons for impairment are no longer valid as a result of an event that took place subsequent to recognition of the impairment loss, it is reversed through profit or loss.

Derecognition
Financial assets or parts of financial assets are derecognised when the contractual rights to cash

flows expire or are transferred, transferring substantially all the related risks and rewards.

4 - Loans and receivables

Classification
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Recognition
Loans and receivables are initially recognised at the agreement signing date, which is usually the disbursement date, based on the financial instrument's fair value, which usually equals the amount disbursed including transaction costs or revenue attributable to the individual loan or receivable and determinable from the transaction start date, even when they are disbursed subsequently. The initially recognised amount does not include costs that, despite having the above characteristics, are to be reimbursed by the counterparty or that are administrative costs.

Measurement
After initial recognition, loans and receivables are measured at amortised cost using the effective interest method.

Interest is recognised in caption 10 "Interest and similar income" of the income statement.

Loans and receivables are tested for impairment at each reporting date to determine whether there is objective evidence of impairment due to events subsequent to initial recognition. Indication of impairment is based on one or more events that took place after initial recognition that have an impact on the estimate of future cash flows of a financial asset or a group of financial assets that can be measured reliably.

Loans and receivables tested individually for impairment include positions classified as non-performing, doubtful or restructured as per the Bank of Italy regulations. Assets not tested individually or for which impairment has not been identified are tested collectively.

The individual impairment test measures the difference between the carrying amount and present value of estimated future cash flows discounted at the position's original effective interest rate.

Estimated cash flows include guarantees securing the debtor's exposure and their probable enforcement. When enforcement of the guarantees is unlikely, the group uses their present value, while if it is probable that they will be enforced, the group considers their realisable value net of the costs to be incurred for enforcement.

Impairment losses are recognised in caption 130 "Net impairment losses" in the income statement.

Loans and receivables are reinstated to their original value in subsequent periods when the reasons for impairment are no longer valid, as long as this assessment is objectively linked to an event that took place after recognition of the impairment loss. Reversals of impairment losses are recognised in the income statement and may not exceed the position's amortised cost had the impairment loss not been recognised.

Loans and receivables that are not tested individually for impairment are tested collectively. They are grouped into categories based on their risk and the related impairment loss percentages are estimated considering historical data, based on elements observable at their measurement date, so as to estimate each category's unrealised loss. The impairment test considers the counterparty's country risk. Collective impairment losses are recognised in profit or loss.

Derecognition
Financial assets or parts of financial assets are derecognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

7 - Equity investments

This caption includes equity-accounted investees as described in section 3 – Basis of consolidation.

Investments in entities other than subsidiaries and associates are classified as AFS financial assets and treated accordingly (see point 2).

8 - Property, equipment and investment property

Classification
This caption includes land, owner-occupied property, investment property, furniture and fittings and all equipment. It also comprises assets under finance lease.

Recognition
Assets acquired on the market are recognised as assets when the main risks and rewards of title are transferred. Initial recognition is at cost, which includes all directly related charges.

Land is recognised separately, including when it is purchased together with the building, using the component approach. It is separated from the building based on third party appraisals.

The cost of extraordinary maintenance that increases the item's future economic benefits is capitalised while other ordinary maintenance costs are expensed.

Measurement
Property, equipment and investment property are subsequently measured at cost adjusted by accumulated depreciation and any impairment losses/reversals of impairment losses.

The depreciable value of property and equipment equals their cost as the residual value after depreciation is not deemed significant. Depreciation is charged systematically on a straight-line basis over the assets' estimated useful life to reflect their technical-economic life and residual use.

The useful life of the main categories of property, equipment and investment property is as follows:

- furniture and fittings: 8 years;
- owner-occupied buildings: maximum 33 years;
- investment property: maximum 33 years;
- POS and ATM, classified as electronic equipment, are depreciated over three and seven years, respectively, as these periods are held to reflect their useful lives.

Land is not depreciated as it has an indefinite life nor are works of art as their useful lives cannot be estimated and their value usually increases over time.

The group tests the assets for impairment at every reporting date. If there is indication of impairment, it compares the asset's carrying amount to its recoverable amount being the higher of fair value and value in use.

Derecognition
Property, equipment and investment property are derecognised when sold or when no future economic benefits are expected from their continued use or sale.

9 - Intangible assets

Classification
An intangible asset is an identifiable non-monetary asset without physical substance able to generate future economic benefits controllable by the entity.

Recognition
Intangible assets are recognised at cost when the principal risks and rewards are transferred, only when it is probable that the related future economic benefits will materialise and cost can be measured reliably. Otherwise, cost is expensed in the period in which it is incurred.

Measurement
All intangible assets other than goodwill are considered to have finite useful lives and are amortised in line with their cost and related useful lives.

In particular:

- technology related intangibles, such as software acquired and software development cost, which are amortised on the basis of their expected technological obsolescence and over a maximum period of five years. In particular, the costs incurred for the development of software projects are considered as intangible assets and are recognised under assets only when all the following conditions are met: i) the cost attributable to the intangible asset during its development can be measured reliably, (ii) there is the intention, the availability of financial resources and the technical ability of making the intangible asset available for use or sale, (iii) the future economic benefits to be generated by the asset can be demonstrated. Software development capitalised costs only comprise the costs directly attributable to the development process.

- intangible assets relating to the Depositary services, recorded following the acquisition of contracts or business units, have an estimated useful life of ten years depending on the contractual terms.

Their residual value is taken to be nil.

The group tests the assets for impairment at every reporting date. If there is indication of impairment, it compares the asset's carrying amount to its recoverable amount being the higher of fair value and value in use.

Derecognition
The group derecognises intangible assets when they are sold or when it does not expect to receive future economic benefits from their continued use or sale.

Goodwill
Goodwill arising on business combinations is the difference between the consideration paid, including related costs, and fair value of the assets acquired and the liabilities assumed at the transaction date. If the difference is positive, it is recognised as an asset (goodwill), being a payment by the acquiree for future economic benefits to be generated by assets that cannot be identified individually or recognised separately. If the difference is negative, it is recognised directly in profit or loss (excess cost).

Goodwill is recognised at cost, net of accumulated impairment losses. It is not amortised.
It is tested annually for impairment even if there are no indicators of impairment.

Impairment losses on goodwill are recognised in caption 260 "Impairment losses on goodwill" of the income statement. They are not reversed in subsequent periods.

11 - Current and deferred taxes

The group estimates current and deferred taxes.

Current taxes not yet paid in whole or in part at the reporting date are recognised as tax liabilities in the statement of financial position. If payments on account in the current or previous reporting period exceed the related tax expense, the difference is recognised as a tax asset.

Current and deferred taxes are recognised in caption 290 "Income taxes" of the income statement unless they relate to gains or losses on AFS financial assets and actuarial gains and losses, which are recognised directly in the valuation reserves, net of tax.

Deferred tax assets and liabilities are recognised in the statement of financial position without offsetting as "Tax assets" and "Tax liabilities", respectively.

The income tax expense is calculated on the basis of an estimate of the current and deferred tax expense and income. Specifically, deferred tax assets and liabilities are calculated on the temporary differences between the carrying amounts of assets and liabilities and their tax bases. The group recognises deferred tax assets (in caption 140.b) for deductible temporary differences and carryfoward tax losses that will reverse in subsequent periods when it is probable that it will make a taxable profit in the same period, according to its business plans, against which it can offset the deferred tax asset.

Deferred tax liabilities are calculated on all taxable temporary differences, excluding only reserves taxed upon distribution as, given the amount of the taxed available reserves, the group does not expect to undertake transactions that would require their taxation.

Deferred tax assets and liabilities are calculated using the tax rates expected to be enacted in the period in which the deferred tax asset will be recovered or the deferred tax liability extinguished, based on the ruling tax laws.

They are remeasured regularly to reflect any changes in the tax laws or rates or any subjective situations in which the group may find itself.

12 - Provisions for risks and charges

Pension and similar provisions

Internal pension plans are considered to be defined benefit plans. The group calculates the related liabilities and current service cost using actuarial assumptions and the projected unit credit method. This method projects future payments using historical figures and the demographic curve and discounts these flows using a market interest rate. The discount rate is the average market rate at the measurement date. The present value of the group's liability at the reporting date is also adjusted by the fair value of any plan assets.

Other provisions

The group recognises provisions for risks and charges when:

- it has a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of resources will be necessary to settle the obligation;

and

- the liability can be reliably estimated.

When the effect of the time value of money is material, the provision is discounted using the current market rates at the closing date. Accruals and increases due to the time factor are recognised in profit or loss. Where discounting is used, the increase in the provision due to the passage of time is recognised as interest expense.

Provisions and contingent liabilities are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

13 - Liabilities and Securities issued

Classification
An issued financial instrument is classified as a liability when, based on the substance of the contractual agreement, the group has a contractual obligation to deliver cash or another financial asset to another party.

Due to banks and customers include funding obtained on the interbank market and from customers, including through repurchase agreements and the placing of bonds and certificates of deposit.

They also include finance lease liabilities.

Recognition
Amounts due to banks are recognised at the contract agreement date, which is usually when the bank receives the funds and issues the debt instruments.

Financial liabilities are initially recognised at fair value, which is normally the amount received or the issue price, plus the directly related costs/income. Internal administrative costs are excluded.

Measurement
After initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

Interest is recognised in caption 20 "Interest and similar expense" of the income statement.

Derecognition
Financial liabilities, or parts thereof, are derecognised when they are extinguished, i.e., when the obligation is complied with, cancelled or has expired.

They are also derecognised when previously issued securities are repurchased. The difference between their carrying amount and the amount paid to repurchase them is recognised in profit or loss.

If the repurchased security is subsequently placed on the market again, this is treated as a new issue and is recognised at the new placement price.

14 - Financial liabilities held for trading

This caption includes derivatives held for trading with negative fair values.
All financial liabilities held for trading are measured at fair value and the fair value gains or losses are recognised in profit or loss.

The measurement and recognition criteria are identical to those used for financial assets held for trading.

16 - Foreign currency transactions

Initial recognition
Upon initial recognition, a foreign currency transaction is translated into the functional currency using the spot exchange rate ruling at the transaction date.

Subsequent measurement
Foreign currency assets and liabilities are retranslated into Euros at each subsequent reporting date using the following criteria

- monetary items are retranslated using the closing rates;
- non-monetary items measured at historical cost are retranslated using the transaction-date exchange rates;
- non-monetary items measured at fair value are retranslated using the closing rates.

Exchange rate differences arising from the settlement of monetary items are recognised in profit or loss in the period in which they arise; exchange rate differences on non-monetary items are recognised in equity or in profit or loss in line with the method used to recognise the gains or losses that include this component.

Foreign currency costs and revenue are translated at the exchange rate ruling on their recognition date or, if they have not been realised, at the closing spot rate.

18 - Other information

Post-employment benefits
The Italian post-employment benefits (TFR) are a form of deferred remuneration paid to employees when they leave the group. They accrue over the employment term and are recognised under personnel expense.

Following the Italian supplementary pension reform introduced with Legislative decree no. 252 of 5 December 2005, benefits accruing from 1 January 2007 are calculated without using an actuarial approach as the group's liability is limited to its contribution defined by the Italian Civil Code (defined contribution plan as per IAS 19).

Post-employment benefits vested up to 31 December 2006 continue to be considered defined benefit plans under IAS 19. Accordingly, the related obligation is subject to actuarial valuation using the projected unit credit method. This method projects future payments using historical statistics and the demographic curve and discounts these flows using a market interest rate.

The rate used to discount the post-employment benefit obligation (both funded and unfunded) varies from country to country. It is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The term of the corporate bonds is consistent with the estimated term of the post-employment benefit obligations.

Specifically, the amount recognised as a liability in caption 120.a) equals the net balance of the obligation's present value at the reporting date, the sum of any actuarial gains or losses, less any pension costs for past service not yet recognised and the current value of plan assets, if any, at the reporting date that will be used to directly extinguish the obligation.

Starting from the 2013 consolidated financial statements, the group has recognised actuarial gains and losses in the statement of comprehensive income as required by the revised IAS 19.

Before that, they had been recognised immediately in profit or loss.

Interest accrued on the net liability continues to be recognised.

Treasury shares
Repurchased treasury shares are directly offset against equity. No gain or loss on the repurchase, sale, issue or extinguishment of these shares can be recognised in profit or loss. Any amounts paid or received for these shares are recognised directly in equity.

The group has set up the specific reserve as per article 2357-ter of the Italian Civil Code.

Measurement of the fair value of financial instruments
The fair value of financial instruments is measured using the financial market prices in the case of instruments listed on active markets or by using internal measurement models for other financial instruments.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The closing date bid price and ask price are used for financial assets and financial liabilities respectively.

The fair value of financial instruments not quoted on active markets is determined using prices of recent market transactions of instruments with similar characteristics or by using valuation techniques based mainly on discounting cash flows. These techniques include all the factors that the market considers to set the price. Accordingly, the models consider the time value of money measured using the risk-free interest rate, default risks, the prepayment risk and the volatility of the financial instrument price, as well as, if applicable, foreign currency exchange rates.

The valuation model adopted for a financial instrument is the same over time, adjusted only in the case of significant changes in market conditions or subjective changes affecting the issuer.

Valuation models based on market parameters are used for bonds and derivatives. The calculation method also considers the need to include the credit risk of both counterparties.

Specifically, bonds are measured by discounting the expected future cash flows of the contractual plan, adjusted for the issuer credit risk.

This method is also used for derivatives, being interest rate swaps (IRS), overnight interest rate swaps (OIS) and options.

A fair value hierarchy has been developed for shares and an application order for the measurement methods which considers any significant transactions involving the share in a sufficiently short time period compared to the measurement period, comparable transactions carried out by companies operating in the same sector and the application of financial, income and equity analytical valuation methods.

The fair value of financial assets and liabilities carried at cost or amortised cost is disclosed in the notes and is determined as follows:

- for non-current financial assets and liabilities, the discounted cash flow method is mainly used;
- for on demand assets and liabilities, with a short term or undetermined maturity, the carrying amount net of a collective/individual impairment loss is deemed to reasonably reflect fair value as it reflects changes in interest rates and the issuer credit risk;
- for floating-rate and current fixed-rate securities issued, the carrying amount is deemed to adequately reflect fair value, for the reasons set out above;
- for non-current fixed-rate liabilities, the discounted cash flow method, without considering changes in its credit spread, given its immateriality, is used.

Measurement of fair value of non-financial assets
The fair value of investment property is only calculated for disclosure in the notes. The group uses third party appraisals considering transactions at current prices in an active market for similar real estate assets in the same location and condition and that have the same lease and other contractual terms.

Determination of impairment losses on goodwill
Impairment losses on goodwill are determined using the discounted cash flow method.

Guarantees issued
Guarantees issued, credit derivatives and similar instruments as per IAS 39 and subsequent impairment losses are recognised in caption 100 “Other liabilities”.

Income statement

<u>Interest income and expense</u>
Interest income and expense and related income and expense relate to cash and cash equivalents, non-derivative financial assets and liabilities held for trading, AFS financial assets, HTM investments, loans and receivables, liabilities and securities issued.

Interest income and expense are recognised in profit or loss on all instruments measured at amortised cost, using the effective interest method.

Fee and commission income and expense

They are recognised on an accruals basis.

Specifically, trading commissions on securities are recognised when the service is rendered.

Fees and commissions included in amortised cost to calculate the effective interest rate are excluded as they are recognised under interest.

Dividends

Dividends are recognised in profit or loss when their distribution is approved.

Other income and costs

They are recognised on an accruals basis.

Business combinations

Assets and liabilities deriving from business combinations are recognised at their acquisition-date fair value. After allocating the acquisition price to the assets acquired, liabilities assumed and contingent liabilities to obtain their fair value, any positive difference is recognised as goodwill. After initial recognition, goodwill is tested for impairment.

If the allocation of the acquisition cost to the assets acquired, liabilities assumed (and contingent liabilities) gives rise to a negative difference, this is taken to profit or loss.

Utilisation of estimates and assumptions in the preparation of the consolidated financial statements

The consolidated financial statements captions are measured using the policies set out above.

Application of these policies sometimes involves the adoption of estimates and assumptions that may have a significant effect on the carrying amount of assets and liabilities, income and expenses.

The use of reasonable estimates is an essential part of the preparation of financial statements but must not affect their reliability. The financial statements captions affected to a greater extent by the use of estimates and assumptions are:

- measurement of financial assets not listed on active markets;
- measurement of intangible assets and equity investments;
- quantification of accruals to provisions for risks and charges;
- quantification of deferred liabilities.

A change in an accounting estimate may occur due to changes in the circumstances on which the estimate was based or as a result of new information or more experience. The effect of a change in an accounting estimate is recognised prospectively by including it in profit or loss of the period of the change and, if the change affects future periods, also in future periods.

No significant changes to the accounting estimates were made in 2016.

A.3. Transfers between portfolios of financial assets

A.3.1 Reclassified financial assets: carrying amount, fair value and effects on comprehensive income

Type of financial instrument	Original portfolio	Portfolio to which transfer is made	Carrying amount at 31/12/2016	Fair value at 31/12/2016	Income or expense if transfer had not taken place (before taxes)		Income or expense for the year (before taxes)	
					Fair value gain/loss	Other	Fair value gain/loss	Other
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Debt instruments	Financial assets held for trading	Available-for-sale financial assets	52,691	52,691	289		1,447	

A.3.2. Reclassified financial assets: effects on comprehensive income before transfer

No transfers among portfolios took place during the year.

A.3.3. Transfer of assets held for trading

In 2011, as the rare circumstances provided for by IAS 38 arose, the group reclassified Italian treasury credit certificates from the HFT portfolio to the AFS portfolio.

These rare circumstances related to the international sovereign debt crisis of June 2011 and the continuously widening spread of the German bund.

A.4 Fair value disclosure

The IFRS require that financial products classified in the HFT or AFS portfolios be measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., not a forced liquidation or distress sale) on the principal market at the measurement date.

Fair value is a market-based measurement, not an entity-specific measurement. An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

IFRS 13 establishes a hierarchy for measuring fair value of financial instruments depending on the entity's use of discretion, prioritising the use of relevant observable inputs that reflect the assumptions that market participants would use to price assets/liabilities.

The fair value hierarchy has three input levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices);
- Level 3: unobservable inputs for the asset or liability.

The decision about which level to use is not optional as they are to be applied in hierarchical order. Highest priority is given to official prices available on active markets for the assets or liabilities to be measured (level 1) or assets and liabilities measured using techniques based on parameters observable on the market other than prices (level 2) and the lowest priority is given to assets and liabilities whose fair value is calculated using techniques that are based on unobservable inputs and which are, therefore, more discretional (level 3).

The group uses the reporting date market price for instruments listed on active markets (level 1).

The fair value of financial instruments not listed on active markets is measured using techniques mainly based on discounting cash flows. These techniques consider all the factors that the market uses to set the price which are mainly inputs observable on the market (level 2). Specifically:

- bonds are measured by discounting the expected future cash flows of the contractual plan, adjusted for the issuer credit risk.
- derivatives, including IRSs and OISs, and options are measured using the market models that mainly use market rates as their input, adjusted to reflect counterparty risk. This risk includes changes in the counterparty's credit standing and in the issuer's credit standing (own credit risk), if material;
- a fair value hierarchy has been developed for shares and an application order for the measurement methods which considers any significant transactions involving the share in a sufficiently short time period compared to the measurement period, comparable transactions carried out by companies operating in the same sector and the application of financial, income and equity analytical valuation methods.

The valuation model adopted for a financial instrument is the same over time, adjusted only in the case of significant changes in market conditions or subjective changes affecting the issuer.

The group did not have at the reporting date, nor did it trade in during the period, level 3 financial instruments, except for immaterial amounts.

Qualitative disclosure

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

As noted above, the group does not have nor did it trade in level 3 financial instruments, except for immaterial amounts.

It measured level 2 financial instruments (mainly Swap, DCS and stock options) using market interest rates and volatility. Given the bank's limited operations in the unlisted derivatives segment, its transactions mainly with Italian institutional counterparties and, with the most relevant of them, its guarantees mitigating risk, the adjustments made to the level 2 instruments to reflect counterparty risk were immaterial.

A.4.2 Measurement processes and sensitivity

As noted above, the group does not have nor did it trade in level 3 financial instruments, except for immaterial amounts.

A.4.3 Fair value hierarchy

Transfers between the fair value levels are made to reflect changes in the instruments or its market.

Transfers from level 1 to level 2 are made when there is an inadequate number of

contributors or a limited number of investors that hold the outstanding float.

Conversely, instruments that are illiquid when issued and have a small number of trades classified in level 2 are transferred to level 1 when an active market exists.

A.4.4 Other disclosures

The group did not avail of the exception under IFRS 13.48 to measure the net positions of groups of assets and liabilities managed on a net basis.

The group does not hold assets, the current use of which differs from their highest and best use.

QUANTITATIVE DISCLOSURE

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level

	31/12/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	11,445	1,748	-	13,127	5,613	-
2. Financial assets at fair value through profit or loss						
3. Available-for-sale financial assets	3,170,102	187,810	-	2,570,122	38,937	-
4. Hedging derivatives						
5. Property, equipment and investment property						
6. Intangible assets						
Total	**3,181,547**	**189,559**	**-**	**2,583,249**	**44,550**	**-**
1. Financial liabilities held for trading	438	7,629	-	838	4,049	-
2. Financial liabilities at fair value through profit or loss						
3. Hedging derivatives						
Total	**438**	**7,629**	**-**	**838**	**4,049**	**-**

Key

L1 = level 1

L2 = level 2

L3 = level 3

The group did not transfer assets and liabilities between level 1 and level 2 during the period.

Given the group's limited operations in the unlisted derivative segment, the fact that it solely works with Italian institutional counterparties and the existence of guarantees that mitigate counterparty risk, the above fair value is not significantly influenced by adjustment factors for counterparty risk (credit value adjustments and / or debit value adjustments).

A.4.5.2 Changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets held for trading	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Hedging derivatives	Property, equipment and investment property	Intangible assets
1. Opening balance	-	-	-	-	-	-
2. Increases						
2.1. Purchases						
2.2. Gains recognised in:						
2.2.1. Profit or loss						
- including gains on sales						
2.2.2. Equity	X	X				
2.3. Transfers from other levels						
2.4. Other increases						
3. Decreases						
3.1. Sales						
3.2. Repayments						
3.3. Losses recognised in:						
3.3.1. Profit or loss						
- including losses on sales						
3.3.2. Equity	X	X				
3.4. Transfers to other levels						
3.5 Other decreases						
D. Closing balance	-	-	-	-	-	-

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

	31/12/2016				31/12/2015			
	CA	**L1**	**L2**	**L3**	**CA**	**L1**	**L2**	**L3**
1. Held-to-maturity investments	15,933	15,933	-		31,784	31,444		
2. Loans and receivables with							-	-
banks	747,676	-	747,676	-	827,652	-	827,652	-
3. Loans and receivables with customers	2,844,529	-	2,844,138	391	3,536,897	-	3,536,506	391
4. Investment property	71,569	-	75,320	-	66,179	-	99,496	-
5. Non-current assets held for sale and disposal groups	-	-	-	-	186,206	-	-	186,206
Total	**3,679,707**	**15,933**	**3,667,134**	**391**	**4,648,718**	**31,444**	**4,463,654**	**186,597**
1. Due to banks	1,567,113	-	1,567,113	-	1,631,798	-	1,631,798	-
2. Due to customers	6,255,341	-	6,255,341	-	4,547,227	-	4,547,227	-
3. Securities issued	-				-	-		-
4. Liabilities associated with assets held for sale	-	-	-		-	-	-	-
Total	**7,822,454**	**-**	**7,822,454**		**6,179,025**	**-**	**6,179,025**	**-**

Key:
CA = carrying amount
L1 = level 1
L2 = level 2
L3 = level 3

A.5 Information on “day one profit or loss”

Pursuant to IFRS 7.28 and IAS 39.AG.76, a financial instrument shall be initially recognised at an amount that is equal to its fair value, which is generally considered to be the price paid/collected from its trading. In practice, there could be a difference between the two values. In these cases, the standard stipulates that a financial instrument can be recognised at a fair value different from the amount paid/collected only if it is measured:

- using prices from observable current market transactions in the same instrument;
- using valuation techniques exclusively based on observable market date as the variable factors.

In other words, IAS 39 states that the presumption that the fair value is equal to the price paid/collected can be rebutted only if it is determined using objective evidence that the price paid/collected does not represent the real market value of the financial instrument being traded.

The objective evidence shall be obtained using the most objective method available, i.e., reducing valuation discretion to the minimum.

The difference between fair value and the negotiated price, when the above conditions are met, is called the “day one profit or loss” and is immediately taken to profit or loss.

The group did not recognise transactions of this kind in the period.

Part B – NOTES TO THE STATEMENT OF FINANCIAL POSITION

ASSETS

Section 1 - Cash and cash equivalents - Caption 10

1.1 Cash and cash equivalents: breakdown

	31/12/2016	31/12/2015
a) Cash	470	599
b) Demand deposits with central banks	1,798,314	21,790
Total	**1,798,784**	**22,389**

Section 2 - Financial assets held for trading - Caption 20

2.1 Financial assets held for trading: breakdown by product

	31/12/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
A. Assets						
1. Debt instruments	11,406	-	-	13,084	-	-
1.1 Structured instruments	314	-	-	482	-	-
1.2 Other instruments	11,092	-	-	12,602	-	-
2. Equity instruments	13	-	-	21	4	-
3. OEIC units	26	-	-	22	-	-
4. Financing	-	-	-	-	-	-
4.1. Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**11,445**	**-**	**-**	**13,127**	**4**	**-**
B. Derivatives						
1.1 Trading	-	1,748	-	-	5,608	-
1.2 Associated with fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 Trading	-	-	-	-	-	-
2.2 Associated with fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
Total B	**-**	**1,748**	**-**	**-**	**5,608**	**-**
Total (A + B)	**11,445**	**1,748**	**-**	**13,127**	**5,612**	**-**

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

	31/12/2016	31/12/2015
A. Assets		
1. Debt instruments		
a) Governments and central banks	190	382
b) Other government agencies	92	13
c) Banks	10,212	11,327
d) Other issuers	912	1,362
2. Equity instruments		
a) Banks	11	7
b) Other issuers:	2	17
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	2	16
- other	-	1
3. OEIC units	26	22
4. Financing		
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
Total A	**11,445**	**13,131**
B. Derivatives		
a) Banks	1,598	4,528
- fair value	1,598	4,528
b) Customers	150	1,080
- fair value	150	1,080
Total B	**1,748**	**5,608**
Total (A + B)	**13,193**	**18,739**

Section 4 - Available-for-sale financial assets - Caption 40

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

	31/12/2016			31/12/2015		
	L1	**L2**	**L3**	**L1**	**L2**	**L3**
1. Debt instruments	3,169,903	-	-	2,569,429	-	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other instruments	3,169,903	-	-	2,569,429	-	-
2. Equity instruments	199	147,575	-	693	5,365	-
2.1 FVTPL	199	99,992	-	693	5,365	-
2.2 Cost	-	47,583	-	-		-
3. OEIC units	-	40,235	-	-	33,571	-
4. Financing	-	-	-	-	-	-
Total	**3,170,102**	**187,810**	**-**	**2,570,122**	**38,936**	**-**

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

	31/12/2016	31/12/2015
1. Debt instruments		
a) Governments and central banks	3,169,903	2,569,429
b) Other government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity instruments		
a) Banks	352	846
b) Other issuers:	147,423	5,212
-insurance companies	-	-
-financial companies	48,540	4,510
-non-financial companies	98,844	455
-other instruments	39	248
3. OEIC units	**40,235**	**33,571**
4. Financing	-	
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
Total	**3,357,913**	**2,609,058**

Section 5 - Held-to-maturity investments - Caption 50

5.1 Held-to-maturity investments: breakdown by product

	31/12/2016				31/12/2015			
	CA	FV			CA	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt instruments	-	-	-	-	-	-	-	-
- structured instruments	4,948	4,948	-	-	4,942	4,942	-	-
- other instruments	10,985	10,985	-	-	26,842	26,502	-	-
2. Financing	-	-	-	-	-	-	-	-
Total	**15,933**	**15,933**	**-**	**-**	**31,784**	**31,444**	**-**	**-**

Key
FV = fair value
CA = carrying amount

The decrease is due to the repayment of matured securities.

5.2 Held-to-maturity investments: breakdown by debtor/issuer

	31/12/2016	31/12/2015
1. Debt instruments		
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	15,933	29,796
d) Other issuers	-	1,988
2. Financing		
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
Total	**15,933**	**31,784**
Total fair value	**15,933**	**31,784**

Section 6 - Loans and receivables with banks - Caption 60

6.1 Loans and receivables with banks: breakdown by product

	Total 31/12/2016				Total 31/12/2015			
	CA	FV			CA	FV		
		L1	L2	L3		L1	L2	L3
A. Loans and receivables with central banks	**170,519**	**-**	**170,519**	**-**	**149,479**	**-**	**149,479**	**-**
1. Term deposits	-	X	X	X	-	X	X	X
2. Minimum reserve	170,519	X	X	X	149,479	X	X	X
3. Reverse repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Loans and receivables with banks	**577,158**	**-**	**577,157**	**-**	**678,173**	**-**	**678,173**	**-**
1. Financing	573,103	-	-	-	-	-	-	-
1.1 Current accounts and demand deposits	180,698	X	X	X	295,799	X	X	X
1.2 Term deposits	862	X	X	X	33,783	X	X	X
1.3 Other financing:	391,543	X	X	X	344,700	X	X	X
- Reverse repurchase agreements	231,707	X	X	X	189,653	X	X	X
- Finance leases	-	X	X	X	-	X	X	X
- Other	159,836	X	X	X	155,047	X	X	X
2. Debt instruments	4,055	X	X	X	3,890	X	X	X
2.1 Structured instruments	-	X	X	X	-	X	X	X
2.2 Other instruments	4,055	X	X	X	3,890	X	X	X
Total (carrying amount)	**747,676**	**-**	**747,676**	**-**	**827,652**	**-**	**827,652**	**-**

Key
FV = fair value
CA = carrying amount

Section 7 - Loans and receivables with customers - Caption 70

7.1 Loans and receivables with customers: breakdown by product

	31/12/2016						31/12/2015					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Performing	Non-performing		L1	L2	L3	Performing	Non-performing		L1	L2	L3
		Purchased	Other					Purchased	Other			
Financing	**2,843,429**	**-**	**1,100**		**2,843,429**	**1,100**	**3,536,507**	**-**	**391**		**3,536,507**	**391**
1. Current accounts	117,650	-	391	X	X	X	186,385	-	391	X	X	X
2. Reverse repurchase agreements	207,517	-	-	X	X	X	806,784	-	-	X	X	X
3. Loans	-	-	-	X	X	X	-	-	-	X	X	X
4. Credit cards, personal loans and salary backed loans	2,236,874	-	151	X	X	X	2,202,371	-	-	X	X	X
5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7. Other financing	281,388	-	558	X	X	X	340,967	-	-	X	X	X
Debt instruments	-	-	-				-	-	-			
8. Structured instruments	-	-	-	X	X	X	-	-	-	X	X	X
9. Other instruments	-	-	-	X	X	X	-	-	-	X	X	X
Total	**2,843,429**	**-**	**1,100**	**-**	**2,843,429**	**1,100**	**3,536,507**		**391**	**-**	**3,536,507**	**391**

"Other financing" mainly relates to guarantee deposits.

7.2 Loans and receivables with customers: breakdown by debtor/issuer

	31/12/2016			31/12/2015		
	Performing	Non-performing		Performing	Non-performing	
		Purchased	Other		Purchased	Other
1. Debt instruments	-		-			
a) Governments	-			-		
b) Other government agencies	-			-		
c) Other	-		-	-		-
- non-financial companies	-			-		
- financial companies	-			-		
- insurance companies	-			-		
- other issuers	-			-		
2. Financing to:	**2,843,429**	**-**	**1,100**	**3,536,507**		**-**
a) Governments	-	-	-	-	-	-
b) Other government agencies	-	-	-	-	-	-
c) Other	2,843,429	-	1,100	3,536,507	-	-
- non-financial companies	33,554	-	558	30,408	-	-
- financial companies	572,812	-	391	1,153,031	-	391
- insurance companies	50	-	-	-	-	-
- other	2,237,012	-	151	2,353,068	-	-
Total	**2,843,429**	**-**	**1,100**	**3,536,507**		**391**

Section 10 - Equity investments - caption 100

10.1 Investments in equity-accounted jointly-controlled entities and associates

	Registered office	Operating office	Type of relationship	Investment		Voting rights %
				Investor	Investment %	
B. Associates						
1. Hi-Mtf Sim Spa	Milan	Milan	1	ICBPI	25	25
2. Unione Fiduciaria	Milan	Milan	1	ICBPI	24	24

10.2 Significant equity investments: carrying amount, fair value and dividends received

	Carrying amount	Fair value	Dividends received
A. Jointly-controlled entities			
B. Associates			
1. Hi-Mtf Sim Spa	1,541	X	-
2. Unione Fiduciaria	8,564	X	414
Total	**10,105**	**-**	**414**

10.5 Equity investments: changes

	31/12/2016	31/12/2015
A. Opening balance	106,417	106,686
B. Increases		
B.1 Purchases		
B.2 Reversals of impairment losses		
B.3 Fair value gains	18	790
B.4 Other increases	24,094	
C. Decreases		
C.1 Sales		
C.2 Impairment losses		800
C.3 Other decreases	120,424	259
D. Closing balance	10,105	106,417
E. Total fair value gains		
F. Total impairment losses		

10.6 Significant assumptions used for the assessment of the existence of joint control or significant influence

The ICBPI Group's consolidated and equity-accounted investments are all direct mainly by holding voting rights. The group holds more than half of the subsidiaries' voting rights and more than 20% of the associates'.

The group did not have to perform special judgements or make significant assumptions in order to establish the existence of control over subsidiaries and significant influence over associates.

10.7 Commitments for interests in jointly controlled entities

None.

10.8 Commitments for investments in associates

None.

10.9 Significant restrictions

None.

10.10 Other information

None.

Section 12 - Property, equipment and investment property - Caption 120

12.1 Property and equipment: breakdown of assets measured at cost

	31/12/2016	31/12/2015
1. Owned		
a) land	18,804	17,089
b) buildings	48,811	45,829
c) furniture	2,021	2,107
d) electronic systems	42,271	37,660
e) other	1,636	1,580
2. Under finance lease	-	-
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**113,543**	**104,265**

12.2 Investment property: breakdown of assets measured at cost

	31/12/2016				31/12/2015			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Owned								
a) land	39,898				38,940	-	-	-
b) buildings	31,671				27,239	-	-	-
2. Under finance lease	-				-	-	-	-
a) land	-				-	-	-	-
b) buildings	-				-	-	-	-
Total	**71,569**	**-**	**75,320**	**-**	**66,179**	**-**	**99,496**	**-**

12.5 Property and equipment: changes

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**21,242**	**88,432**	**8,584**	**178,786**	**41,750**	**338,795**
A.1 Total net impairment losses	4,153	42,602	6,477	141,127	40,171	**234,531**
A.2 Net opening balance	17,089	45,829	2,107	37,659	1,579	**104,263**
B. Increases	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Purchases	-	7	126	25,730	618	**26,481**
B.2 Capitalised improvement costs	-	-	-	-	-	**-**
B.3 Reversals of impairment losses	-	-	-	-	-	**-**
B.4 Fair value gains recognised in:	-	-	-	-	-	**-**
a) equity	-	-	-	-	-	**-**
b) profit or loss	-	-	-	-	-	**-**
B.5 Exchange rate gains	-	-	-	-	-	**-**
B.6 Transfers from investment property	-	-	-	-	-	**-**
B.7 Other increases	2,211	8,322	-	-	203	**10,736**
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Sales	-	-	-	2,529	203	**2,732**
C.2 Depreciation	-	2,424	212	18,590	568	**21,794**
C.3 Impairment losses recognised in:	-	-	-	-	-	**-**
a) equity	-	-	-	-	-	**-**
b) profit or loss	-	-	-	-	-	**-**
C.4 Fair value gains recognised in:	-	-	-	-	-	**-**
a) equity	-	-	-	-	-	**-**
b) profit or loss	-	-	-	-	-	**-**
C.5 Exchange rate losses	-	-	-	-	-	**-**
C.6 Transfers to:	-	-	-	-	-	**-**
a) investment property	-	-	-	-	-	**-**
b) disposal groups	-	-	-	-	-	**-**
C.7 Other decreases	496	2,918	-	-	-	**3,414**
D. Net closing balance	**18,804**	**48,816**	**2,022**	**42,270**	**1,631**	**113,543**
D.1 Total net impairment losses	4,649	47,944	6,689	162,246	40,941	**262,468**
D.2 Gross closing balance	**23,453**	**96,760**	**8,710**	**204,516**	**42,571**	**376,009**
E. Cost						

12.6 Investment property: changes

	Total	
	Land	Buildings
A. Opening balance	**38,940**	**27,240**
B. Increases	-	-
B.1 Purchases	-	-
B.2 Capitalised improvement costs	-	-
B.3 Fair value gains	-	-
B.4 Reversals of impairment losses	-	-
B.5 Exchange rate gains	-	-
B.6 Transfers from property and equipment	-	-
B.7 Other increases	1,834	8,594
C. Decreases"	-	-
C.1 Sales	-	-
C.2 Depreciation	-	1,535
C.4 Fair value losses	-	-
C4. Impairment losses	-	-
C.5 Exchange rate losses	-	-
C.6 Transfers to other portfolios	-	-
a) property and equipment	-	-
b) non-current assets held for sale	-	-
C.7 Other decreases	875	2,628
D. Closing balance"	**39,898**	**31,671**
E. Fair value	**75,320**	

Investment property is covered by IAS 40 and includes property held (either owned or under finance lease) to earn rental and/or obtain appreciation of invested capital.

Investment property is measured at cost, net of depreciation.

The group's investment properties are held by ICBPI and are listed below:

- building in via Verziere 11, Milan,
- building in via Cavallotti 14, Milan,
- building in via Zurigo 3, Milan,
- building in via Broletto 37, Milan,

- building in Corso Europa 18, Milan,
- building in Strada Uno Milanofiori , Assago,
- building in via Nazionale, 3 San Giovanni al Natisone.

At the reporting date, there are no:

- restrictions to the sale of investment property or the collection of lease payments;
- obligations/contractual commitments to purchase, build, develop, repair or maintain owner-occupied property.

Section 13 - Intangible assets - Caption 130

13.1 Intangible assets: breakdown by asset

	31/12/2016		31/12/2015	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	-	**1,064,160**	**-**	**77,727**
A.1.1 attributable to the owners of the parent	-	1,064,160	-	77,727
A.1.2 attributable to non-controlling interests	-	-	-	-
A.2 Other intangible assets	-	-	-	-
A.2.1 Assets measured at cost:	-	-	-	-
a) Internally generated assets	-	-	-	-
b) Other	101,167	-	83,256	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally generated assets	-	-	-	-
b) Other	-	-	-	-
Total	**101,167**	**1,064,160**	**83,256**	**77,727**

13.2 Intangible assets: changes

	Goodwill	Other intangible assets: internally generated assets		Other intangible assets: other		Total
		FIN.	IND.	FIN.	IND.	
A. Opening balance	77,727	-	-	176,478	-	254,205
A.1 Total net impairment losses	-	-	-	93,222	-	93,222
A.2 Net opening balance	77,727	-	-	83,256	-	160,983
B. Increases	-	-	-	-	-	-
B.1 Purchases	-	-	-	41,557	-	41,557
B.2 Increase in internally generated assets	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other increases	986,433	-	-	193	-	986,626
- including business combinations	-	-	-	-	-	-
C. Decreases	-	-	-	-	-	-
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	-	-	-
- Amortisation	-	-	-	23,838	-	23,838
- Fair value losses	-	-	-	-	-	-
+ equity	-	-	-	-	-	-
+ profit or loss	-	-	-	-	-	-
C.4 Fair value losses recognised in:	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Other decreases	-	-	-	-	-	-
D. Net closing balance	1,064,160	-	-	101,168	-	1,165,328
D.1 Total net impairment losses	-	-	-	23,838	-	23,838
E. Gross closing balance	1,064,160	-	-	125,007	-	1,189,166
F. Cost	-	-	-	-	-	-

Key

FIN: finite life

IND. = indefinite life

Impairment test

ICBPI Group has performed the impairment test on intangible assets with an indefinite useful life.

The impairment test has been performed for the following CGUs (cash-generating units), which have not changed in respect to those for 2015 Financial Statements:

CGUs	Goodwill €'000
CGU Cards	789,737
CGU Payment	200,763
CGU Securities Services	45,900
CGU Outsourcing	27,759
	1,064,159

The recoverable amount a CGU is the higher of its:

- Fair value less costs of disposal
- Value in Use

The estimate of Value in Use has been carried out by applying the Dividend Discount Model in its Excess Capital version which was developed from the ICBPI Group 2017-2021 Business Plan.

With regards to the Fair Value determination, the trading multiples method was applied, using the median P/E adjusted multiple of a panel of comparable companies.

The main parameters used to estimate the cost of capital in the calculation of th value in use an the following:

Cost of Capital - Ke	ICBPI CGUs				Gruppo Consolidato
	Carte	Pagamenti	Securities Services	Outsourcing	
Risk Free at 31 Dec 2016	1.82%	1.82%	1.82%	1.82%	1.82%
Beta	1.13	1.12	1.18	0.91	1.13
Equity Market Risk Premium	6.02%	6.02%	6.02%	6.02%	6.02%
Market Risk Premium	6.82%	6.73%	7.13%	5.46%	6.78%
Cost of Capital	8.63%	8.55%	8.95%	7.27%	8.60%

They have been determined as follows:

- Risk free: gross yield of Italian BTP 10Y at December 31st 2016 (Source: Info provider)
- Beta used on consolidated DDM: weighted average of median betas of listed comparable companies identified for each CGU.
- Equity Market Risk Premium: ERP for Italy – December 2016 (Source: ERP by months – A. Damodaran)

In order to determine the Terminal Value of the CGUs:

- Growth rate (g) 2.0%, in line with ECB's target for the inflation rate of the Euro Zone.
- a prudential add-on of 100 bps to the discount rate has been applied.

The Distributable dividends during the explicit projections period and sustainable dividend for Terminal Value calculation have been determined considering the compliance with a minimum CET 1 target of 14.0% as established by Bank of Italy.

Valuation activities on goodwill submitted to impairment test resulted in any indication of impairment loss for goodwill being tested.

It was carried out a sinsitivity analysis to assess the change of the value is use at consolidated level, respect to changes in valuation parameters Ke and g (+/- 50 bps).

The analysis does not show any issues.

Section 14 - Tax assets and liabilities - Caption 140 of assets and Caption 80 of liabilities

14.1 Deferred tax assets: breakdown

	31/12/2016	31/12/2015
IRAP		
Net impairment losses on loans and receivables	337	355
Provisions	190	211
Substitute tax on goodwill	3,543	3,580
Amortisation/depreciation	1,272	905
Fair value reserve	81	5
Other	3	
IRES		
Net impairment losses on loans and receivables	12,183	12,804
Provisions	7,128	7,901
Substitute tax on goodwill	17,490	17,674
Impairment losses on intangible assets, P&E and investment property	11,460	8,436
Fair value reserve	398	25
Other	1,080	1,220

14.2 Deferred tax liabilities: breakdown

	31/12/2016	31/12/2015
IRAP		
Building revaluations	3,894	2,680
Other	858	2,780
Fair value reserve	1,594	12,454
IRES		
Building revaluations	19,931	14,728
Other	5,185	5,917
Fair value reserve	7,868	13,601

14.3 Changes in deferred tax assets (recognised in profit or loss)

	31/12/2016	31/12/2015
1. Opening balance"	**52,108**	**51,457**
2. Increases		
2.1 Deferred tax assets recognised in the year		
a) related to previous years		
b) due to changes in accounting policies		
c) reversals of impairment losses		
d) other	6,457	5,698
2.2 New taxes or increases in tax rates		
2.3 Other increases	616	
3. Decreases		
3.1 Deferred tax assets derecognised in the year		
a) reversals	5,127	5,013
b) impairment due to non-recoverability		
c) change in accounting policies		
d) other		
3.2 Decrease in tax rates		34
3.3 Other decreases		
a) conversion into tax credits as per Law no. 214/2011"		
b) other	288	
4. Closing balance	**53,766**	**52,108**

14.3.1 Change in deferred tax assets as per Law no. 214/2011 (recognised in profit or loss)

	31/12/2016	31/12/2015
1. Opening balance	**40,560**	39,161
2. Increases	1,323	1,861
3. Decreases		
3.1 Reversals	1,539	462
3.2 Conversions into tax assets		
a) arising from the loss for the year		
b) arising from tax losses		
3.3 Other information		
4. Closing balance	**40,344**	**40,560**

14.4 Changes in deferred tax liabilities (recognised in profit or loss)

	31/12/2016	31/12/2015
1. Opening balance	**26,128**	**25,022**
2. Increases		
2.1 Deferred tax liabilities recognised in the year		
a) related to previous years		
b) due to changes in accounting policies		
c) other	8,591	3,297
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax liabilities derecognised in the year		
a) reversals	4,862	2,191
b) due to changes in accounting policies		
c) other		
3.2 Decrease in tax rates		
3.2 Other decreases		
4. Closing balance	**29,857**	**26,128**

14.5 Changes in deferred tax assets (recognised in equity)

	31/12/2016	31/12/2015
1. Opening balance	**1,008**	**983**
2. Increases		
2.1 Deferred tax assets recognised in the year		
a) related to previous years		
b) due to changes in accounting policies		
c) other	2,697	73
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax assets derecognised in the year		
a) reversals	2,307	44
b) impairment due to non-recoverability		
c) due to changes in accounting policies		
d) other		
3.2 Decrease in tax rates		4
3.3 Other decreases		
4. Closing balance	**1,398**	**1,008**

14.6 Changes in deferred tax liabilities (recognised in equity)

	31/12/2016	31/12/2015
1. Opening balance	**26,031**	**15,968**
2. Increases		
2.1 Deferred tax liabilities recognised in the year		
a) related to previous years		
b) due to changes in accounting policies		
c) other	8,460	13,773
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax liabilities derecognised in the year		
a) reversals		
b) due to changes in accounting policies		
c) other	25,019	3,710
3.2 Decrease in tax rates		
3.3 Other decreases		
4. Closing balance	**9,472**	**26,031**

Section 15 - non-current assets held for sale and discontinued operations and related liabilities - Caption 150 of assets and caption 90 of liabilities

15.1 Non-current assets held for sale and discontinued operations: breakdown by type of asset

	31/12/2016	31/12/2015
A. Non-current assets held for sale		
A.1 Financial assets	-	186,206
A.2 Investments in associates and companies subject to joint control		
A.3 Property and equipment		
A.4 Intangible assets		
A.5 Other		
Total A	**-**	**186,206**
of which cost		
of which Fair value Level 1		
of which Fair value Level 2		
of which Fair value Level 3	-	186,206
B. Discontinued operations		
B.1 Financial assets held for trading		
B.2 Financial assets designated at fair value through profit and loss		
B.3 Financial assets available for sale		
B.4 Investments held to maturity		
B.5 Due from banks		
B.6 Loans to customers		
B.7 Investments in associates and companies subject to joint control		
B.8 Property and equipment		
B.9 Intangible assets		
B.10 Other		
Total B	-	-
of which cost		
of which Fair value Level 1		
of which Fair value Level 2		
of which Fair value Level 3		
C. Liabilities associated with non-current assets held for sale		
C.1 Debts		
C.2 Securities		
C.3 Other		
Total C	-	-
of which cost		
of which Fair value Level 1		
of which Fair value Level 2		
of which Fair value Level 3		
D. Liabilities associated with discontinued operations		
D.1 Due to banks		
D.2 Due to customers		
D.3 Securities issued		
D.4 Financial liabilities held for trading		
D.5 Financial liabilities designated at fair value through profit and loss		
D.6 Allowances		
D.7 Other		
Total D	-	-
of which cost		
of which Fair value Level 1		
of which Fair value Level 2		
of which Fair value Level 3		

Section 16 - Other assets - Caption 160

16.1 Other assets: breakdown

	31/12/2016	31/12/2015
Withholding taxes paid on interest charged to customers and other tax assets	89,286	91,614
Negotiated cheques to be cleared	11,644	9,198
Matured securities and accrued interest to be collected	70	605
Commissions and other income to be charged	160,534	163,963
BIREL, transfers, SETIF, received messages to be charged, e-money	139,310	125,297
Sundry and residual items	44,535	49,925
Total	**445,378**	**440,602**

LIABILITIES

Section 1 - Due to banks - Caption 10

1.1 Due to banks: breakdown by product

	31/12/2016	31/12/2015
1. Due to central banks	862	1,886
2. Due to banks	1,566,251	1,629,912
2.1 Current accounts and demand deposits	818,979	818,935
2.2 Term deposits	215,440	120,504
2.3 Financing	212,982	357,492
2.3.1 repurchase agreements	-	-
2.3.2 other	212,982	357,493
2.4 Commitments to repurchase own equity instruments	-	-
2.5 Other liabilities	318,850	332,981
Total	**1,567,113**	**1,631,798**
Fair value - level 1 **Fair value - level 2** **Fair value - level 3**	**1,567,113**	**1,631,798**
Total fair value	**1,567,113**	**1,631,798**

Section 2 - Due to customers - Caption 20

2.1 Due to customers: breakdown by product

	31/12/2016	31/12/2015
1. Current accounts and demand deposits	5,153,539	3,933,377
2. Term deposits	209	59
3. Financing	231,676	100,025
3.1 repurchase agreements	231,676	100,025
3.2 other instruments	-	-
4. Commitments to repurchase own equity instruments	-	-
5. Other liabilities	869,918	513,766
Total	**6,255,341**	**4,547,227**
Fair value - level 1		
Fair value - level 2	**6,255,341**	**4,547,227**
Fair value - level 3		
Total fair value	**6,255,341**	**4,547,227**

Section 4 - Financial liabilities held for trading - Caption 40

4.1 Financial liabilities held for trading: breakdown by product

	31/12/2016					31/12/2015				
	NA	FV			FV*	NA	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Financial liabilities										
1. Due to banks	69	90	-	-	-	520	578	-	-	-
2. Due to customers	302	348	-	-	-	263	280	-	-	-
3. Debt instruments	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**371**	**438**	**-**	**-**		**783**	**858**	**-**	**-**	
B. Derivatives										
1. Financial derivatives	-	-	-	-			-	-	-	
1.1 Trading	X	-	7,629	-	X	X	-	4,049	-	X
1.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	-	-	-	-			-	-	-	
2. Credit derivatives	-	-	-	-			-	-	-	
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
TOTAL B	**X**	**-**	**7,629**	**-**	**X**	**X**	**-**	**4,049**	**-**	**X**
Total (A + B)	**371**	**438**	**7,629**	**-**	**X**	**783**	**858**	**4,049**	**-**	**X**

Key:
FV = fair value
VN = nominal or notional amount
FV = fair value calculated by excluding changes in value due to changes in the issuer's credit standing compared to the issue date.*
L1 = level 1
L2 = level 2
L3 = level 3

Section 8 - Tax liabilities - Caption 80

See section 14 of Assets.

Section 10 - Other liabilities - Caption 100

10.1 Other liabilities: breakdown

	31/12/2016	31/12/2015
Tax liabilities, withholding taxes and other amounts to be paid	24,080	21,003
Cheques, cheque truncation flows to be credited	11,314	11,302
Securities, currency and premium transactions paid for options to be credited	1,757	2,162
Due to employees	25,906	24,501
Other liabilities for expenses, commissions and interest to be paid	163,987	132,724
Prepaid debit cards	56,769	54,481
Currency differences on portfolio transactions	17,202	1,546
BIREL, transfers, payment flows to be credited	277,868	395,154
Sundry and residual items	67,259	64,716
Total	**646,141**	**707,589**

Section 11 - Post-employment benefits - Caption 110

11.1 Post-employment benefits: changes

	31/12/2016	31/12/2015
A. Opening balance	**21,677**	**22,897**
B. Increases		
B.1 Accruals	231	275
B.2 Other increases	18	
C. Decreases		
C.1 Payments	577	630
C.2 Other decreases	753	865
Post-employment benefits	20,596	21,677
Total	**20,596**	**21,677**

11.2 Other information

Main demographic and actuarial assumptions used to measure post-employment benefits at 31 December 2016	
Mortality among aged pensioners	Rates relating to Italians broken down by age and gender, published by ISTAT in 2000 and reduced by 25%
Mortality among total and permanent disability pensioners	Rates inferred from the invalidity tables currently used by the reinsurance practice, broken down by age and gender.
Annual rate of advances	1.87%
Turnover annual	2.50%
Retirement	Rate based on the satisfatiction of the first requirement for the mandatory general insurance
Inflation	1.5%
Annual discount rate	"1.31% inferred, in accordance with par. 83 of IAS 19, the index Iboxx Corporate AA 10+ duration detected at the measurement date. To this end it was decided the performance with a duration comparable to the duration of the collective of the evaluated employees

Sensitivity analysis

As required by IAS 19, the group carried out a sensitivity analysis of the liability for post-employment benefits with reference to the most significant actuarial assumptions. It aimed at showing how much the carrying amount of the liability would be affected by reasonably possible variations in each of the assumptions. Specifically, the following table sets out the change in the liability for post-employment benefits assuming that the main assumptions used increase or decrease.

€'000		Change in post-employment benefits in absolute terms	Change in post-employment benefits in percentage terms
Change in actuarial assumptions:			
- Discount rate:			
	-0.50%	1,181	5.73%
	0.50%	(1,102)	-5.35%
- Employee turnover			
	-0.50%	71	0.34%
	0.50%	(81)	-0.39%

Section 12 - Provisions for risks and charges - Caption 120

12.1 Provisions for risks and charges: breakdown

	31/12/2016	31/12/2015
1. Internal pension plans	940	978
2. Other provisions for risks and charges	36,377	38,147
Total	**37,317**	**39,125**

12.2 Provisions for risks and charges: changes

	Total	
	Pension plans	Other provisions
A. Opening balance	**978**	**38,147**
B. Increases		
B.1 Accruals	30	6,625
B.2 Discounting	-	-
B.3 Changes due to variations in discount rate	-	-
B.4 Other increases	-	36
C. Decreases	-	
C.1 Utilisations	-	3,709
C.2 Changes due to variations in discount rate	-	-
C.3 Other decreases	68	4,722
D. Closing balance	**940**	**36,377**

12.3 Defined benefit internal pension plans

1. Description and related risks

The liability for defined benefit internal pension plans includes the accruals made for the group's obligation to its former employees.

2. Changes in liabilities (assets) net defined benefit and redemption rights

The present value of the defined benefit liability at 31 december 2016 leave for manager amounts to € 978 thousand. The group paid benefits totalling € 68 thousand during the year.

3. Fair value of plan assets

There are no plan assets.

4. Cash flow amount, timing and uncertainty

The plan is based on the latest remuneration.

Section 15 - Equity - Captions 140, 160, 170, 180, 190, 200 and 220

15.1 "Share capital" and "Treasury shares": breakdown

	31/12/2016	31/12/2015
1. Share capital	42,557	42,557
2. Share premium	148,242	148,242
3. Reserves	1,698,454	630,930
4. (Treasury shares)		
a) parent	(32)	(32)
b) subsidiaries	-	-
5. Valuation reserves	65,863	232,373
6. Profit for the year	103,998	90,489
Total	**2,059,082**	**1,144,559**

15.2 Share capital - number of shares: changes

	Ordinary	Other
A. Opening balance		
- fully paid-in	14,185,790	
- not fully paid-in		
A.1 Treasury shares (-)	75,191	
A.2 Outstanding shares: opening balance	**14,110,599**	
B. Increases		
B.1 New issues		
- against consideration:		
- business combinations		
- bond conversions		
- exercise of warrants		
- other		
- bonus issues:		
- to employees		
- to directors		
- other		
B.2 Sale of treasury shares		
B.3 Other increases		
C. Decreases		
C.1 Cancellations		
C.2 Repurchases of treasury shares		
C3 Disposals of equity investments		
C.4 Other decreases		
D. Outstanding shares: closing balance	**14,110,599**	
D.1 Treasury shares (+)	75,191	
D.2 Closing balance	14,185,790	
- fully paid-in	14,185,790	
- not fully paid-in		

The outstanding and fully paid-in shares number 14,185,790, while treasury shares in portfolio amount to 75,191.

Section 16 - Equity attributable to non-controlling interests - Caption 210

16.1 Caption 210 "Equity attributable to non-controlling interests"

	31/12/2016	31/12/2015
Investments in consolidated companies with significant non-controlling interests:		
Help Line	2,553	3,218
CartaSi	9,826	22,415
Total	**12,379**	**25,633**

16.2 Equity instruments: breakdown and changes

	31/12/2016	31/12/2015
1. Share capital	1,349	2,488
2. Share premium	68	114
3. Reserves	9,782	12,769
4. (Treasury shares)		
5. Valuation reserves	50	5,545
6. Equity instruments		
7. Profit for the year attributable to non-controlling interests	1,130	4,717
Total	**12,379**	**25,633**

Other disclosures

1. Guarantees and commitments

	31/12/2016	31/12/2015
1) Financial guarantees issued	322	1,385
a) Banks	322	1,385
b) Customers	-	-
2) Commercial guarantees issued	1,093	1,075
a) Banks	83	83
b) Customers	1,010	992
3) Irrevocable commitments to disburse funds	110,930	252,231
a) Banks	1,247	9,608
i) certain use	1,247	9,608
ii) uncertain use	-	-
b) Customers	109,683	242,623
i) certain use	2,934	125,220
ii) uncertain use	106,749	117,403
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets pledged as collateral for third party commitments	-	-
6) Other commitments	-	-
Total	**112,345**	**254,692**

2. Assets pledged as guarantee for liabilities and commitments

	31/12/2016	31/12/2015
1. Financial assets held for trading	-	-
2. Financial assets at fair value through profit or loss	-	-
3. Available-for-sale financial assets	98,288	180,834
4. Held-to-maturity investments	-	-
5. Loans and receivables with banks	-	-
6. Loans and receivables with customers	-	-
7. Property, equipment and investment property	-	-

5. Management and trading on behalf of third parties: banking group

	31/12/2016	31/12/2015
1. Execution of customer orders		
a) Purchases		
1. settled	21,844,663	22,616,234
2. unsettled	-	-
b) sales		
1. settled	22,076,792	22,878,984
2. unsettled	-	-
2. Asset management		
a) individual	-	-
b) collective	-	-
3. Securities custody and administration		
a) third party securities held as part of depository bank services (excluding asset management)	48,247,564	45,353,130
1. securities issued by the consolidated entities	-	-
2. other securities	48,247,564	45,353,130
b) third party securities on deposit (excluding asset management): other	72,051,407	79,421,757
1. securities issued by the consolidated entities	39,694	39,648
2. other securities	72,011,713	79,382,109
c) third party securities deposited with third parties	103,822,347	108,106,682
d) securities owned by the group deposited with third parties	3,116,743	2,617,499
4. Order collection and transmission		
a) Purchases		
1. settled	1,277,278	1,680,054
2. unsettled	-	-
b) Sales		
1. settled	1,372,114	1,666,266
2. unsettled	-	-
5. Placement of secured and unsecured securities		
a) Placement of unsecured securities	506,738	627,060
b) Placement of secured securities	3,803	28,029

Part C - NOTES TO THE INCOME STATEMENT

Section 1 - Interest - Captions 10 and 20

1.1 Interest and similar income: breakdown

	Debt instruments	Financing	Other	Total 31/12/2016	Total 31/12/2015
1. Financial assets held for trading	396	-	-	396	445
2. Financial assets at fair value through profit or loss	-	-	-	-	-
3. Available-for-sale financial assets	26,240	-	-	26,240	44,175
4. Held-to-maturity investments	337	-	-	337	608
5. Loans and receivables with banks	188	4,620	1,328	6,136	1,841
6. Loans and receivables with customers	-	1,459	23,506	24,964	26,981
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	7,021	7,021	460
Total	**27,162**	**6,079**	**31,855**	**65,095**	**74,510**

1.4 Interest and similar expense: breakdown

	Liabilities	Securities	Other	Total 31/12/2016	Total 31/12/2015
1. Due to central banks	-	-	-	-	104
2. Due to banks	20,141	-	-	20,141	21,625
3. Due to customers	1,872	-	-	1,872	1,238
4. Securities issued	-	-	-	-	-
5. Financial liabilities held for trading	41	-	-	41	41
6. Financial liabilities at fair value through profit or loss	-	-	-	-	-
7. Other liabilities and provisions	-	-	6,065	6,065	254
8. Hedging derivatives	-	-	-	-	-
Total	**22,054**	**-**	**6,065**	**28,119**	**23,262**

Section 2 - Fees and commissions - Captions 40 and 50

2.1 Fee and commission income: breakdown

	Total 31/12/2016	Total 31/12/2015
a) guarantees issued	65	21
b) credit derivatives	-	-
c) management, brokerage and consultancy services:	10,452	11,612
1. trading in financial instruments	10,452	11,612
2. foreign currency transactions	-	-
3. asset management	-	-
3.1. individual	-	-
3.2. collective	-	-
4. securities custody and administration	4,889	4,214
5. depository services	48,779	48,968
6. securities placement	1,861	3,051
7. order collection and transmission	1,618	2,304
8. consultancy services	207	144
8.1 concerning investments	-	-
8.2 concerning financial structure	207	144
9. distribution of third party services	-	-
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other products	-	-
d) collection and payment services	815,466	893,541
e) servicing services for securitisations	-	-
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) keeping and management of current accounts	-	-
j) other services	100,736	90,290
Total	**984,073**	**1,054,145**

2.2 Fee and commission expense: breakdown

	Total 31/12/2016	Total 31/12/2015
a) guarantees received	50	46
b) credit derivatives	-	-
c) management and brokerage services:	-	-
1. trading in financial instruments	343	400
2. foreign currency transactions	53	64
3. asset management:	-	-
3.1 own portfolio	-	-
3.2 third party portfolios	-	-
4. securities custody and administration	5,780	5,649
5. placement of financial instruments	1,695	2,673
6. securities settlement	1,924	2,250
d) collection and payment services	560,227	655,378
e) other services	3,515	3,241
Total	**573,587**	**669,701**

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

	Total 31/12/2016		Total 31/12/2015	
	Dividends	Income from OEIC units	Dividends	Income from OEIC units
A. Financial assets held for trading	4	-	12	
B. Available-for-sale financial assets	112	-	225	
C. Financial assets at fair value through profit or loss	-	-	-	
D. Equity investments	-	-	-	
Total	**116**	**-**	**237**	

Section 4 - Net trading income - Caption 80

4.1 Net trading income: breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income [(A+B) - (C+D)]
1. Financial assets held for trading					
1.1 Debt instruments	46	3,674	95	518	3,107
1.2 Equity instruments	-	197	-	46	151
1.3 OEIC units	1	1	-	3	-1
1.4 Financing	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading					
2.1. Debt instruments	8	-	1	-	7
2.2 Liabilities	-	-	-	-	-
2.3 Other	-	-	2	-	-2
3. Other financial assets and liabilities: net exchange rate gains	X	X	X	X	-245
4. Derivatives					
4.1. Financial derivatives:					
- On debt instruments and interest rates	-	-	-	-	-
- On equity instruments and equity indexes	-	8,927	-	8,272	655
- On currencies and gold	-	-	-	-	-
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**55**	**12,799**	**99**	**8,839**	**3,672**

Section 6 - Gain (loss) from sales/repurchases - Caption 100

6.1 Net gain (loss) from sales or repurchases: breakdown

	Total 31/12/2016			Total 31/12/2015		
	Gain	Loss	Net gain (loss)	Gain	Loss	Net gain (loss)
Financial assets						
1. Loans and receivables with banks	-	-	-	-	-	-
2. Loans and receivables with customers	-	-	-	-	-	-
3. Available-for-sale financial assets	-	-	-	-	-	-
3.1 Debt instruments	-	-	-	-	-	-
3.2 Equity instruments	300	-	300	-	-	-
3.3 OEIC units	-	-	-	-	-	-
3.4 Financing	-	-	-	-	-	-
4. Held-to-maturity investments	-	-	-	-	-	-
Total assets	**300**	**-**	**300**	**-**	**-**	**-**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**

Section 8 - Net impairment losses - Caption 130

8.1 Net impairment losses on loans and receivables: breakdown

	Impairment losses (1)			Reversals of impairment losses (2)				Total 31/12/2016 (3)=(1)–(2)	Total 31/12/2015 (3)=(1)–(2)
	Individual		Collective	Individual		Collective			
	Derecognition	Other		A	B	A	B		
A. Loans and receivables									
with central banks	-	-						-	-
- Financing	-	-						-	-
- Debt instruments	-	-						-	-
2. Loans and receivables									
with customers	-	-						-	-
Impaired loans acquired	-	-						-	-
- Financing	-	-				X	X	X	-
- Debt instruments	-	-				X	X	X	X
Other									
- Financing	-	-						-	-
- Debt instruments	-	-	2.246					2.246	2,599
C. Total	**-**	**-**	**2,246**	**-**	**-**	**-**	**-**	**2,246**	**2,599**

Key
A = from interest
B = other reversals

Portfolio value adjustements are mainly related to credit card debt and revolvingloans.

8.2 Net impairment losses on AFS financial assets: breakdown

	Impairment losses (1)		Reversals of impairment losses (2)		Total 31/12/2016 (3)=(1)-(2)	Total 31/12/2015 (3)=(1)-(2)
	Individual		Individual			
	Derecognition	Other	A	B		
A. Debt instruments						
B. Equity instruments		2.212			2.212	227
C. OEIC units						
D. Financing to banks						
E. Financing to customers						
F. Total	**-**	**2.212**	**-**	**-**	**2.212**	**227**

Key
A = from interest
B = other reversals

8.3 Net impairment losses on held-to-maturity investments: breakdown

	Impairment losses (1)			Reversals of impairment losses (2)				Total 31/12/2016 (3)=(1)-(2)	Total 31/12/2015 (3)=(1)-(2)
	Individual		Collective	Individual		Collective			
	Derecognition	Other		A	B	A	B		
A. Debt instruments								-	4,478
B. Financing to banks									
C. Financing to customers									
D. Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,478**

Key
A = from interest
B = other reversals

Section 11 - Administrative expenses - Caption 180

11.1 Personnel expense: breakdown

	Total 31/12/2016	Total 31/12/2015
1) Employees		
a) wages and salaries	110,873	95,767
b) social security charges	26,815	24,977
c) post-employment benefits	785	678
d) pension costs	196	289
e) accrual for post-employment benefits	236	289
f) accrual for pension and similar provisions:		
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:		
- defined contribution plans	7,633	7,818
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	5,064	5,150
2) Other personnel	1,743	840
3) Directors and statutory auditors	2,263	3,560
4) Retired personnel	-	-
Total	**155,608**	**139,368**

11.2 Average number of employees per category

	Total 31/12/2016	Total 31/12/2015
a) managers	58	59
b) junior managers	610	597
c) other employees	1,030	1,063

11.5 Other administrative expenses: breakdown

	Total 31/12/2016	Total 31/12/2015
- data processing	94,758	98,916
- post office, valuables transportation and couriers	23,523	24,749
- external services	18,834	20,060
- interbank network traffic	11,412	12,543
- IT connections and automation costs	3,923	3,920
- access to markets	2,145	2,214
- professional services	41,776	14,718
- agents' commissions	1,446	1,757
- bank draft books	124	170
- maintenance and lease	36,837	35,312
- building running costs, leases, heating and lighting	5,660	6,083
- stationery and printed matter	574	519
- insurance	1,687	2,162
- telegraph, telephone and telex	5,421	5,274
- card processing	31,493	37,044
- membership fees	1,481	1,333
- surveillance and cleaning	857	965
- other	62,618	66,137
- taxes and duties	57,368	58,306
Total	**401,937**	**392,182**

The fees paid in 2016 to the independent auditors engaged for the legally required audit pursuant to Legislative decree no. 39 of 27 January 2010 are detailed below:

	Service provider	€'000
Audit of the parent's financial statements	KPMG SPA	161
Audit of the subsidiaries' financial statements	KPMG SPA	186
In addition		**347**

In addition to the audit of the separate and consolidated financial statements and the procedures required of the independent auditors by tax legislation.

Section 12 - Net accruals to provisions for risks and charges - Caption 190

12.1 Net accruals to provisions for risks and charges: breakdown

	Total 31/12/2016	Total 31/12/2015
Accruals to provisions	2,981	13
Total	**2,981**	**13**

Section 13 - Depreciation and net impairment losses on property, equipment and investment property - Caption 200

13.1 Depreciation and net impairment losses on property, equipment and investment property: breakdown

	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Carrying amount (a + b – c)
A. Property, equipment and investment property				
A.1 Owned				
- Property and equipment	21,793			**21,793**
- Investment property	1,535			**1,535**
A.2 Under finance lease				
- Property and equipment	-			**-**
- Investment property	-			**-**
Total	**23,328**	**-**	**-**	**23,328**

Section 14 - Amortisation and net impairment losses on intangible assets - Caption 210

14.1 Amortisation and net impairment losses on intangible assets: breakdown

	Amortisation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Carrying amount (a + b – c)
A. Intangible assets				-
A.1 Owned				-
- Generated internally				-
- Other	23,838	-		**23,838**
A.2 Under finance lease				-
Total	**23,838**	**-**	**-**	**23,838**

Section 15 - Other operating expense and income - Caption 220

15.1 Other operating expense: breakdown

	Total 31/12/2016	Total 31/12/2015
Transfer of revenue from services	19,996	22,881
Other costs	11,140	12,291
Total	**31,136**	**35,172**

15.2 Other operating income: breakdown

	Total 31/12/2016	Total 31/12/2015
Lease income	901	911
Services	238,877	240,552
Recoveries of stamp duties from customers and post office expenses	70,586	71,780
Other income	6,205	4,603
Total	**316,570**	**317,846**

Section 16 - Share of profits (losses) of investees - Caption 240

16.1 Share of profits (losses) of investees: breakdown

	Total 31/12/2016	Total 31/12/2015
1) Jointly-controlled entities		
A. Income		
1. Fair value gains		
2. Gains on sales		
3. Reversals of impairment losses		
4. Other income		
B. Costs		
1. Fair value losses		
2. Impairment losses		
3. Losses on sales		
4. Other costs		
Net profits (losses)	-	-
2) Associates		
A. Income		
1. Fair value gains		
2. Gains on sales		
3. Reversals of impairment losses		
4. Other income	18	790
B. Costs		
1. Fair value losses		
2. Impairment losses		
3. Losses on sales		
4. Other costs	-	800
Net losses	**18**	**- 10**
Total	**18**	**- 10**

Section 19 - Gains (losses) on sales of investments - Caption 270

19.1 Net gains on sales of investments: breakdown

	Total 31/12/2016	Total 31/12/2015
A. Property		
- Gains on sales		-
- Losses on sales		-
B. Other assets	-	-
- Gains on sales	-	8
- Losses on sales	-	2
Net gains	**-**	**6**

Section 20 - Income taxes - Caption 290

20.1 Income taxes: breakdown

	Total 31/12/2016	Total 31/12/2015
1. Current taxes	- 22,489	- 47,291
2. Change in current taxes from previous years (+/-)	537	1,301
3. Decrease in current taxes for the year (+)		38
3. bis Decrease in current taxes for the year due to tax assets as per Law no. 214/2011 (+)		-
4. Change in deferred tax assets (+/-)	- 596	656
5. Change in deferred tax liabilities (+/-)	3,280	- 1,106
6. Tax expense for the year (-)	- 19,268	- 46,407

20.2 Reconciliation between the theoretical and effective tax expense

	Total 31/12/2016	Total 31/12/2015
Reconciliation between the theoretical and effective tax rate		
Theoretical tax rate	33.1%	33.1%
Tax exempt income and other decreases	-34.7%	-7.4%
Non-deductible costs	17.0%	7.1%
Effective tax rate	15.4%	32.8%

Section 22 - Profit for the year attributable to non-controlling interests - Caption 330

2.1 Caption 330 "Profit for the year attributable to non-controlling interests"

	Total 31/12/2016	Total 31/12/2015
Consolidated investments with significant non-controlling interests		
Help Line	10	718
CartaSi	1,576	4,000
Total	**1,586**	**4,718**

PART D – BREAKDOWN OF COMPREHENSIVE INCOME

Breakdown of comprehensive income

		Gross amount	Income tax	Net amount
10	Profit for the year	X	X	105,584
Items that will not be reclassified subsequently to profit or loss:				
20	Property, equipment and investment property			
30	Intangible assets			
40	Defined benefit plans	691	-190	501
50	Non-current assets held for sale			
60	Share of valuation reserves of equity-accounted investees			
Items that will be reclassified subsequently to profit or loss:				
70	Hedges of investments in foreign operations:			
	a) fair value gains (losses)			
	b) reclassification to profit or loss:			
	c) other changes			
80	Exchange rate gains (losses):			
	a) unrealised gains (losses)			
	b) reclassification to profit or loss			
	c) other changes			
90	Cash flow hedges:			
	a) fair value gains (losses)			
	b) reclassification to profit or loss			
	c) other changes			
100	Available-for-sale financial assets:			
	a) fair value gains (losses)	-6,724	3,116	-3,608
	b) reclassification to profit or loss:			
	- impairment losses			
	- gains/losses on sales			
	c) other changes			
110	Non-current assets held for sale:			
	a) fair value gains (losses)			
	b) reclassification to profit or loss			
	c) other changes			
120	Share of valuation reserves of equity-accounted investees:			
	a) fair value gains (losses)			
	b) reclassification to profit or loss			
	- impairment losses			
	- gains/losses on sales			
	c) other changes			
130	**Other comprehensive income (expense)**	**-6,033**	**2,926**	**-3,107**
140	**Comprehensive income (expense) (10 + 130)**	**-6,033**	**2,926**	**102,477**
150	Comprehensive income attributable to non-controlling interests	X	X	1,635
160	**Comprehensive income attributable to the owners of the parent**	**X**	**X**	**100,842**

(€'000)

Part E - Risks and related hedging policies

Introduction

The ICBPI Group attaches great importance to the management and risk control as conditions to ensure reliable and sustainable value creation in a context of controlled risk.

The risk management strategy aims to achieve a comprehensive and coherent vision of the risks, considering both the macroeconomic scenario and the Group's risk profile, fostering a culture of risk and strengthening a transparent and accurate representation of the risks of Group portfolios.

This section includes information related to the ICBPI banking group, which includes:

- **ICBPI S.p.A.** ("ICBPI" or the "bank"), parent (also the "parent"), included in the banks register: as well as management, coordination and control activities, ICBPI provides the group companies with centralised financial, lending and administrative assistance services and the market with payment and securities services;
- **CartaSi S.p.A.**, financial company included in the register of payment institutes as per article 114-septies of the Consolidated Banking Act: it provides payment services in accordance with article 1.1.b.3/4/5 of Legislative decree no. 11 of January 27th, 2010 and related services;
- **Oasi Diagram - Outsourcing Applicativo e Servizi Innovativi S.p.A.** ("Oasi"), operating company: it performs, inter alia, data security and supervisory reporting activities on an outsourcing basis;
- **Help Line S.p.A.** ("Help Line"), operating company: a contact centre business.

The bank's internal controls form a system designed to provide reasonable security about attainment of the efficiency and effectiveness objectives for its operations, the reliability of financial statements disclosures and compliance with the ruling laws and regulations. They include organisational, regulatory and methodological controls designed to efficiently and economically ensure management and strategic control, operating and technical-operational activities.

The internal controls are organised on different levels:

- <u>line controls</u>, aimed at ensuring correct operating practices; these are hierarchical type controls performed by the same production unit which are usually part of the same procedures or performed as back office activities;
- <u>risk management controls</u>, designed to define risk measurement methods, check compliance with their assigned limits by the various operating units (second level controls) and check consistency of each production unit's operations with their risk/return objectives;
- <u>compliance controls</u>, to monitor risks of non-compliance with external and internal regulations;
- <u>internal audit procedures</u>, designed to identify irregularities, violations of procedures, internal and external regulations and to assess the overall working of the internal controls.

Non-operational, independent units carry out the risk management, compliance and internal audit activities.

Responsibility for the internal controls lies with the board of directors that establishes the risk appetite and, accordingly, provides for the definition and approval of the risk strategies and management policies. The board of directors is also responsible for ensuring the internal controls are consistent with the risk management policy.

The group monitors and manages the risks to which it is exposed using well-defined methods and processes, applicable throughout the economic cycle.

The parent's risk management unit monitors and controls the group's risks, working closely with the boards of statutory auditors and general managers of the parent and its subsidiaries. It reports to the group companies' boards of statutory auditors and the parent's risk committee and managing director.

The risk management unit's activities mainly consist of measuring, monitoring and reporting risks related to the business activities of all the group companies. It also checks the suitability of the parent's and group's own funds to cover the various types of risks.

The unit is specialised in the related regulations and provides assistance with the methods set out in the policy to manage non-compliance risk approved by the board of directors.

As part of the internal controls, the bank has a Risk Policy, approved by its board of directors, which sets out the principles, aims and methods to manage (methodology and tools) the main risks to which it is exposed. It also has a Risk Appetite Framework (RAF), which reconciles its strategic planning and risk management as it defines the level and type of risk acceptable to the bank when pursuing its strategic objectives.

In Risk Appetite Framework (RAF) of the Group, introduced in 2012 to ensure that the risk-bearing assets remain in line with the expectations of shareholders and regulatory requirements, the risk-taking strategies are summarized. The general principles are as follows:

- the Group's objective is not to eliminate risk, but to understand them and manage them in such a way as to guarantee an adequate return in the face of risks taken, ensuring stability and continuity in the long term;
- the ICBPI Group has a moderate risk profile where capital adequacy, earnings stability, strong liquidity position and strong reputation are the cornerstones to preserve their current and future profitability;
- the Group ICBPI intends to maintain a strong presence on the major specific risks (not necessarily related to macroeconomic shocks) which the Group may be exposed;
- the Group attaches great importance on compliance risks and reputation. With regard to compliance risk, the Group aims to respect the procedural and substantive rules in order to avoid sanctions and to maintain a solid relationship of trust with all its stakeholders. With regard to the reputation risk, the Group pursues the active management of its image among all stakeholders

and aims to prevent and limit any negative effects on it.

The Risk Appetite Framework represents the overall framework within which it is intended to manage the risks taken by the Group with the definition of the general principles of risk appetite and the subsequent articulation of the presidium:

- the overall risk profile;
- the Group's main specific risks.

The management of overall risk profile derived from the definition of the general principles and consists of a structure of limits to ensure that the Group, even under severe stress conditions, respecting the minimum levels of solvency, liquidity and profitability. It is also to ensure the required reputational risk and compliance profiles.

The framework defines parameters for each category that are the maximum risk limit the Group intends to assume, the best risk limit (risk target) and an early warning level (risk trigger), which when breached, triggers contingency plans and/or mitigation actions to avoid reaching the risk limit.

Given the importance of risk management to strategic planning, the bank also defined the operating methods in a specific regulatory folder, which also sets out the roles and responsibilities of the internal units involved in identifying, assessing and monitoring the most important transactions. Risk assessment based on the most important transactions consists of an assessment of the consistency of the most important transactions' risk profile with the bank's risk appetite (the RAF). The risk profile of these transactions considers the risk appetite policies approved by the board of directors as well as the rules and regulations issued by the regulators for supervised intermediaries.

The aforementioned Risk Policy and Regulatory Folder n. 157 also govern the ICBPI Group ICAAP Process, which was carried out taking into account the requirements of the Bank of Italy Circular No. 285 of December 17th, 2013 "Supervisory Provisions for Banks" and subsequent updates, the EBA indications "Guidelines on ICAAP and ILAAP information collected for SREP purposes" and the expectations of the European Central Bank on ICAAP and ILAAP published through a letter to the market of January 8th, 2016 sent to the so-called "Significant" banks.

Responsibility for the capital adequacy assessment process lies with the board of directors that establishes the risk appetite and, accordingly, provides for the definition and approval of the risk strategies and management policies.

The guidelines for the Group's risk, defined in the Risk Policy document are received by the Boards of Directors of the Group companies. The guidelines are subject to annual review, or "per event" in case of significant changes at the organizational and / or strategic level.

ICBPI also analysed the activities performed, which are mainly related to the providing of products and services to banks and major corporate customers, and identified operational risk as the main risk faced by it. In order to handle this risk and comply with the capital requirement, the bank activated an operational risk framework, which is a specific process that identifies risk factors, assesses the level of exposure to risks and the effectiveness of the actions taken to control and monitor these risks.

Finally, from 2015 it has been introduced an integrated stress test model in order to verify the simultaneous impacts of different risk factors as a result of assumptions of exceptional but plausible events. Object of the integrated stress tests are two regulatory indicators: the Common Equity Tier 1 Ratio - Ratio CET1 - and the Liquidity Coverage Ratio - LCR (calculated according to the QIS diagram).

For the purposes of stress, regulatory indicators have been broken down into their components calculation; the latter were then broken down in turn in primitive variables, which represent the variables to stress.

The identified stress scenarios are primarily carried out through static shock and, in a second moment, through the Monte Carlo simulation.

The Basel 3 rules

From January 1st, 2014 the reforms of the Basel Committee agreements (“Basel 3”) were transposed into law of the European Union with the objective to strengthen the capacity of banks to absorb shocks arising from financial and economic tensions, regardless of their origin, to improve the risk management and governance, to strengthen the transparency and disclosure of the banks.

Doing so, the Committee has maintained the three pillars approach, which was the basis of the previous capital agreement known as “Basel 2”, integrating and strengthening it to increase the quantity and quality of the capital base of the intermediaries, as well as introducing countercyclical supervision tools and rules on the management of liquidity risk and on containment of leverage.

At Community level, the contents of “Basel 3” were transposed into two legal instruments:

- Regulation (EU) No. 575/2013 of June 26th 2013 (CRR), governing the prudential supervision of the First Pillar and public disclosure rules (Third Pillar);
- Directive 2013/36 / EU of June 26th 2013 (CRD IV), which deals, inter alia, the conditions for access to banking activity, the freedom of establishment and the freedom to provide services, the process of prudential supervision, the additional capital reserves.

In addition to the European Union legislation, the Bank of Italy Circular no. 285 of December, 17th 2013 collects the prudential supervisory regulations applicable to Italian banks and banking groups, reviewed and updated to adapt domestic legislation to the changes introduced in the international regulatory framework, particularly with respect to the new European Union framework for banking supervision, as well as to take into account the needs identified in the exercise of the supervision of banks and other intermediaries.

The Group, in order to adapt to the new rules laid down by Basel 3, has taken appropriate project initiatives in order to improve the measurement systems and the related risk management systems.

The adequacy of the risk control system is also represented in the annual report of the supervisory review process for the purpose of capital adequacy (ICAAP), which was approved and sent to the Bank of Italy in the month of April 2016.

As part of the adoption of "Basel 3", the Group has published the document entitled "PUBLIC DISCLOSURE BY ENTITIES ACCORDING TO REGULATION (EU) No 575/2013", which is published annually on the website (www. icbpi.it) and contains informations on capital adequacy, risk exposure and the general characteristics of the systems used to identify, measure and manage these informations.

SECTION 1 - CREDIT RISK

QUALITATIVE DISCLOSURE

General issues

Credit risk is the risk that an unexpected variation in a counterparty's credit standing may lead to its default, generating unexpected losses on cash exposures or endorsement credits (risk of default), or that generates a related unexpected variation in the asset's market value (migration risk).

Lending is not the ICBPI Group's core business but it is an important part of its operations and mainly affects the treasury and finance unit, the securities services department and some business units of the parent, ICBPI, and the subsidiary CartaSi.

Indeed, the group's core business is not to grant financing but it does grant credit facilities, mainly to third parties that, due to the products/services provided to them and the operating/financial rules thereof, require credit facilities in the form of cash (credit facilities) or commitments (endorsement credits).

With respect to the first level controls, the head of the treasury and finance unit and the head of the securities services department check and monitor that the lending transactions performed by the treasury and finance unit comply with the maximum operating limits and/or caps. As part of the second level controls, the risk management unit checks compliance with the operating limits and large exposures. It also calculates the exposure with related parties every day.

The risk management unit also assesses the correct monitoring of the individual credit exposures, the consistency of classifications, the adequacy of accruals and the adequacy and tracing of the recovery process.

CartaSi has a specific credit risk profile in respect of the direct issue of credit cards, which entails its exposure to its customers.

The issue of credit cards only takes place after suitable investigations of the customers and CartaSi's fraud and credit management unit continuously monitors credit risk over the period of the credit card's validity (first level controls).

In order to strengthen controls over credit risk, relevant information about the credit exposure (amount of credit facilities, use of credit facilities, overruns, any non-performing positions) is collected in a structured and organic manner by the various IT procedures.

ICBPI does not operate in innovative financial products such as credit derivatives.

Also because of the limited number of exposures normally taken on by the group, its credit risk measurement methods and the related controls over credit risk trends are simple and lean; it does not use scoring systems or external and/or internal ratings.

Pursuant to the prudent regulations (Bank of Italy circular no. 285), the bank's assessment of credit risk includes counterparty risk, that is the risk that a counterparty to a transaction may default before the transaction's cash flows have been finalised. This latter risk is negligible considering the bank's total weighted assets as it has always been below 1% of the total credit and counterparty risk.

Credit risk management policies

Organisational aspects

The group's organisational structure ensures the proper monitoring and management of risks. With specific respect to credit risk, the board of directors has the sole powers to make policies that affect the group's operations. It approves the strategies and risk management policies and the group's organisational structure for internal controls. The proxy system provided for by an internal policy approved by the board of directors attributes specific powers to some bodies and units for decisions about credit. As required by the internal regulations, credit risk is managed and monitored by the:

- board of directors
- managing director/general manager
- credit committee
- credit and branches unit.

Management, measurement and control systems

Credit Management

The parent is a "second level" bank, whose core business is the providing of products and services mainly in the sector of payment systems and administrative services for the custody, administration and settlement of securities.

Its lending policies are regulated by a specific regulation and it provides credit to:

- banks;
- stock brokerage companies;
- financial companies included in the lists covered by the Consolidated Banking Act;

- large corporate customers;
- OEICs;
- fund management companies.

ICBPI only provides credit facilities to retail customers who are group employees and employees of the former ICBPI (Equens) Group in the form of current account overdrafts and personal loans. It does not provide loans.

The credit facilities offered by ICBPI, diversified by type of customer, include:

- operating treasury facilities;
- intermediation caps in the Target 2 and E-Mid settlement system;
- syndicate loans;
- endorsement credits and other commitments for guarantees issued (sureties, letters of patronage);
- cash credit facilities;
- personal loans.

The lending approval procedure starts after receipt of a formal application from the customer by the relevant unit which is sent to the credit office. This stage includes the correct identification of the risk and an assessment of the customer's reliability, i.e., its ability to meet its financial commitments arising from the receipt and subsequent use of the financing.

Customers do not have to make specific applications for operating limits and/or intermediation caps. The preliminary investigation is initiated by the treasury and finance unit or the competent internal unit.

In order to monitor counterparties that operate in the retail intermediation services sector, the group has introduced specific operating limits to monitor and check these parties' operations. In certain cases, it asks for guarantees to mitigate any risks it takes on.

The group grants banks that provide issuing and acquiring services for the ICBPI payment cards with appropriate overdrafts on the accounts held for these activities in order to monitor its exposure to them.

All the applications for credit and allocations of operating limits are reviewed by the credit office, together with the service manager and then approved by the credit committee. If no obstacles are identified, the credit committee expresses its assessment of the application, including about the guarantee acquired or to be acquired for the board of directors to take its decision.

A proxies structure, approved by the board of directors, allows the authorised parties to take decisions within set limits.

After the credit facility is provided, risks are checked and monitored as follows:

- periodic assessments of the customers and reviews of their positions;
- checks of overruns;
- checks of information from Bank of Italy's credit information centre;
- identification of indications that the risk is more serious;
- periodic checks of the adequacy of the credit facilities used within the bank and the banking sector compared to equity for the mutual fund sector (to check the legal limit imposed by Bank of Italy's regulation).

The credit office and the securities services department regularly check at least once a year the quantitative and qualitative adequacy of the guarantees given by customers. In the case of ascertained total or partial default, they request the customers integrate the guarantees on a timely basis. If this does not take place, they immediately revise the position to comply with the identified risks.

Management Of Overruns

The credit office checks and analyses any overruns every day and informs the relevant units of all positions with overruns (current accounts in Euro and foreign currency with and without credit facilities). The units firstly check the accounting entries and, if necessary, make the relevant adjustments. They analyse the reasons for the overruns and invite the customers to immediately rectify their positions if this is appropriate. They also inform the credit office and the risk management unit of their actions.

Positions with particular difficulties, not covered by the existing ad personam proxies, are communicated to general management so that it can authorise adoption of measures to suspend the facility and/or contract or to commence the procedure to reclassify the position by implementing the process to allow the relevant bodies that granted the credit to take a decision.

All overruns of more than €1,000 are communicated to the board of directors. Positions that are past due or overdue (by more than 90/180 days) are communicated to the credit information centre as per the Bank of Italy regulation.

In addition, following the introduction of Circular 285/2013, a structured process for continuous monitoring of impaired loans has been defined and the perimeter of the Risk Management Service competence activities has been revised. The perimeter has been enriched, among other things, of the credit quality monitoring: the results, from the second quarter of 2014, were included, together with those of the credit risk monitoring, in a special section of the Tableau de Bord, sent quarterly to the Bank of Italy.

Operating limits

The treasury and finance unit manager supervises and checks that all the financial transactions carried out by their unit comply with the operating limits and/or approved caps. The risk management unit monitors compliance with the operating limits granted to the banks on a daily basis as a second level control. These limits are granted on the basis of standard parameters and vary depending on the nature of the instrument and its implicit volatility as well as the duration or residual life of the transaction.

The group has an application which performs the centralised check of the existing operating limits each day and issues general alerts when the threshold is exceeded.

During 2016 there were 14 overruns of the assigned operating limit, almost all of the duration of a working day, for the most part due to the overlapping of operations performed by the various Desk.

Risk concentration limits

The risk management unit monitors compliance with the risk concentration limits (large exposures) on a daily basis, assisted by the level 1 controls already performed by the relevant units.

In the course of 2016 there were 10 overruns of the limit to the concentration of risks, all towards banking counterparties, and all due to the overlap of the exposures on the correspondent account with the treasury operations.

Limits to exposures with related parties

Regulations covering the limits to risky transactions with related parties and parties related to them introduced exposure limits for ICBPI and the group (considering separate and group regulatory capital) vis-à-vis “Company personnel”, “Investors exercising control or significant influence”, “Other investors” and “Parties subject to control or significant influence”.

Controls over the risky transactions take place daily together with the controls over large exposures, including positions with all the group companies. Any excesses of the regulatory limits generate alerts for the various units involved.

In addition to the controls over exposures to the individual related parties, the group also calculates the overall exposure to all the related parties and the parties related to them each day (this procedure was introduced in 2013) as a percentage of the consolidated regulatory capital. This is part of the RAF.

During 2016, the monitoring results showed no overruns of the limits for exposures to related parties.

Credit Quality Monitoring

The monitoring of the ICBPI credit quality, reported for the first time in the Tableau de Bord of the first quarter of 2015, is performed, in the absence of a significant number of non-performing loans, on the persistence and amount (at the reference date of the end of the month) of negative balances of corporate accounts and banking accounts (besides the eventual credit granted).

During the year 2016, the result of the monitoring was as follows:

- regarding to the corporate exposures, the presence in all the detections of the same position in suffering already present in previous years;
- regarding to the exposure to banks, the presence of some positions for which the persistence of the negative balance was caused by the temporary reduced effectiveness of the leveling due to the presence of transactions with future currency date. These transactions have produced a deviation between liquid balance (considered in the activity of leveling) and account balance (which determines the exposure).

Cartasi Credit Management

CartaSi has a specific credit risk profile in respect of the direct issue of credit cards, which entails its exposure to its customers.

The other receivables are generated by operating irregularities in the activities of:

- issuing through banks, when amounts can be debited to blocked cards for which the bank is relieved from the related credit risk five days after the block has been communicated;
- acquiring, such as:
  - recharges to merchants after complaints by cardholders or banks for any reason through the charge-back cycle;
  - non-payment of commissions by the merchants.

These types of risks generated by operating irregularities are operational risks.

Credit risk is monitored constantly, checking that the exposures are within the set budget limits at the beginning of each year. CartaSi also carefully rates each new merchant or cardholder in the case of directly issued cards before agreeing new contracts.

The risk management unit monitors credit risk trends and their effect on the risk policy and set range. The risk management unit also monitors the compliance with the specific limits approved by the board of directors and described in the "CartaSi S.p.A. risk quantification limits" document, annually prepared with the first level units and the risk management unit.

The document sets out the reference values and ranges for each first and second level indicator assigned to monitor CartaSi's credit risks, calculated on the basis of analysis of historical series, projections about the company's future performance and that of the market and indications present in the group's risk policy.

These values, calculated to contain risk, are approved by the parent's risk committee and CartaSi's board of directors.

The risk management unit reports on compliance with these values to the risk committee and to the CartaSi's board of directors and identifies any irregularities or critical issues arising from controls of the first and second level limits.

The group has specific maximum gross and net insolvency limits and limits to the related cost to check and measure risk. It monitors these limits constantly as well as expected losses compared to actual losses and losses incurred for business reasons.

This credit risk control consists of preliminary checks by the first level units, starting with the analysis of the credit application. It includes:

- internal controls;
- consistency controls;
- positive and negative information from the credit bureau;
- credit scoring algorithms.

Another process relevant for credit risk is the monitoring and recovery of receivables from cardholders and merchants, in order to contain the impact of risk events. The following controls are performed:

- daily monitoring of negative events (unpaid direct debits) using a flag to limit the card's spending limit and possible revoke of the banking counterparties;
- daily checks of the use of cash advances in excess of the maximum contractual limits.

The credit risk analysis model for directly issued cards uses the historical trends, starting from 2010, of recorded losses and estimated losses (non-performing positions adjusted by the recovery percentage) normalised by the total exposure for the current month. Its results are VaR and the annual expected and unexpected loss.

The operating management methods for prior years (before 2010) are not consistent with the currently used one and, therefore, they cannot be used as a comparison.

Time series analysis is performed; the output is then processed, using Monte Carlo methodology for the calculation of the expected and unexpected losses on an annual basis.

The expected and unexpected losses, calculated using an annual confidence interval of 99%, are subjected to second level controls described in the Quantitative risk limits document.

With respect to its servicing activities, CartaSi does not have risks related to receivables due directly from retail customers as it provides issuing servicing and acquiring servicing activities. Therefore, the related credit risk falls on the banks that have the issuing and/or acquiring licences.

In the case of servicing, credit risk refers to the customer banks, which are subject to supervision, and the risk disappears within 30 days (the time period between issue of one account statement and the next) with an average exposure of 15 days. This exposure is borne by ICBPI.

Credit risk mitigation techniques

In order to mitigate credit risk, the relevant bodies may decide to tie the granting of credit facilities to the receipt of suitable guarantees, based on the results of the related credit facility application investigation. These guarantees may be collateral, such as securities and / or cash deposits, contractual guarantees or endorsement guarantees.

The credit office and the securities services department regularly check at least once a year the quantitative and qualitative adequacy of the guarantees given by customers. In the case of ascertained total or partial default, they request the customers integrate the guarantees on a timely basis. If this does not take place, they immediately revise the position to comply with the identified risks.

The acquired guarantees do not have specific limits that could affect their legal validity.

There were no significant changes in the management of guarantees compared to the previous year.

Impaired financial assets

The credit committee regularly reviews all potentially irregular positions and decides on the recovery activities to be taken as well as changes in the position's status, based on the relevant parameters. These decisions are reviewed by the board of directors.

Classification of assets by debtor quality complies with the categories established by Bank of Italy.

With respect to impaired positions, impairment losses are recognised after the individual measurement of each position.

With respect to CartaSi, impairment losses are made collectively. Assets are tested for impairment by category and the loss percentages are estimated considering historical figures that allow an estimate of possible losses.

Country risk

Country risk is the risk of losses caused by events that take place in countries other than Italy. This concept is wider than that for sovereign risk as it covers all exposures regardless of the type of counterparty involved, be they natural persons, businesses, banks or public administrations.

The group includes country risk as part of credit risk and it is not a significant risk given that:

- most of ICBPI's exposures are with parties that offer settlement and custody services, such as Clearstream and Euroclear, or international banks (e.g., Barclays, BNP Paribas), that can reasonably be assumed to be very independent economically of the country where their head office is;
- CartaSi's exposures are solely with international circuits (Mastercard and Visa, both of which have their registered office in the US) as part of the process to settle card transactions. Once again, it is reasonable to assume that they are very independent of the countries where their head office is in economical terms;
- the exposures are mostly with parties based in countries with high ratings;
- the capital requirement for credit risk is calculated without using the counterparty rating parameter but solely the rating of the counterparty's country of residence. Therefore, the capital requirement includes the country risk component.

Both for country and issuer risks, the risk management unit checks that the securities in portfolio have the characteristics indicated in the financial regulation once a month and prepares a quarterly report for the manager of the relevant department and the managing director.

QUANTITATIVE DISCLOSURE

A. CREDIT QUALITY

A.1 IMPAIRMED AND UNIMPAIRED LOANS: CARRYING AMOUNT, IMPAIRMENT LOSSES, PERFORMANCE, BUSINESS AND GEOGRAPHICAL DISTRIBUTION

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

	BANKING GROUP					Total
	Non-performing loans	Probable defaults	Impaired past due loans	Other impaired exposures	Unpaired past due loans	
1. Available-for-sale financial assets	-	-	-	-	3,169,903	**3,169,903**
2. Held-to-maturity investments	-	-	-	-	15,933	**15,933**
3. Loans and receivables with banks	-	-	-	-	747,676	**747,676**
4. Loans and receivables with customers	391	709	-	1	2,843,428	**2,844,529**
5. Financial assets at fair value through profit or loss	-	-	-	-	-	**-**
6. Financial assets held for sale	-	-	-	-	-	**-**
Total at 31/12/2016	**391**	**709**	**-**	**1**	**6,776,940**	**6,778,041**
Total at 31/12/2015	**391**	**1,650**	**-**	**-**	**7,149,928**	**7,151,969**

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross amount and carrying amount)

	Impaired assets			Unimpaired assets			Total (carrying amount)
	Gross amount	Individual impairment	Carrying amount	Gross amount	Collective impairment	Carrying amount	
1. Available-for-sale financial assets	-	-	-	3,169,903	-	3,169,903	3,169,903
2. Held-to-maturity investments	-	-	-	15,933	-	15,933	15,933
3. Loans and receivables with banks	-	-	-	747,676	-	747,676	747,676
4. Loans and receivables with customers	4,987	4,596	391	2,850,165	6,028	2,844,138	2,844,529
5. Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-	-
Total at 31/12/2016	**4,987**	**4,596**	**391**	**6,783,678**	**6,028**	**6,777,650**	**6,778,041**
Total at 31/12/2015	**6,374**	**5,983**	**391**	**7,159,225**	**7,646**	**7,151,579**	**7,151,969**

	Assets with poor credit quality		Other assets
	Cumulated impairment losses	Carrying amount	Carrying amount
1. Financial assets held for trading			13,153
2. Hedging derivatives			-
Total at 31/12/2016			**13,153**
Total at 31/12/2015			18,693

A.1.3 Banking group - Loans and receivables with banks on and off-statement of financial position: gross amounts, carrying amounts and due dates

	Gross amount					Individual impairment	Collective impairment	Carrying amount
	Impaired assets				Unimpaired assets			
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	After 1 year				
A. ON-STATEMENT OF FINANCIAL POSITION								
a) Non-performing loans	-	-	-	-	-	-	-	-
- including: negotiated exposures								
b) Probable defaults	-	-	-	-	-	-	-	-
- including: negotiated exposures								
c) Impaired past due loans	-	-	-	-	-	-	-	-
- including: negotiated exposures								
d) Unimpaired past due loans	-	-	-	-	-	-	-	-
- including: negotiated exposures								
e) Other unimpaired exposures	-	-	-	-	773,821	-	-	773,821
- including: negotiated exposures								
TOTAL A	**-**	**-**	**-**	**-**	**773,821**	**-**	**-**	**773,821**
B. OFF-STATEMENT OF FINANCIAL POSITION								
a) Impaired	-	-	-	-	-	-	-	-
b) Unimpaired	-	-	-	-	2,808	-	-	2,808
TOTAL B	**-**	**-**	**-**	**-**	**2,808**	**-**	**-**	**2,808**
TOTAL A + B	**-**	**-**	**-**	**-**	**776,630**	**-**	**-**	**776,630**

A .1.6 Banking group - Loans and receivables with customers on and off-statement of financial position: gross amounts, carrying amounts and due dates

	Gross amount					Individual impairment	Collective impairment	Carrying amount
	Impaired assets				Unimpaired assets			
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	After 1 year				
A. ON-STATEMENT OF FINANCIAL POSITION								
a) Non-performing loans	-	-	-	2,139	-	1,748	-	391
- including: negotiated exposures								
b) Probable defaults	4,820	-	-	-	-	4,111	-	709
- including: negotiated exposures								
c) Impaired past due loans	-	-	-	-	-	-	-	-
- including: negotiated exposures								
d) Unimpaired past due loans	-	-	-	-	1	-	-	1
- including: negotiated exposures								
e) Other unimpaired exposures	-	-	-	-	6,016,443	-	1,917	6,014,526
- including: negotiated exposures	-	-	-	-	-	-	-	-
TOTAL A	**4,820**	**-**	**-**	**2,139**	**6,016,443**	**5,859**	**1,917**	**6,015,626**
B. OFF-STATEMENT OF FINANCIAL POSITION								
a) Impaired	-	-	-	-	-	-	-	-
b) Unimpaired	-	-	-	-	345,163	-	-	345,163
TOTAL B	**-**	**-**	**-**	**-**	**345,163**	**-**	**-**	**345,163**
TOTAL A + B	**4,820**	**-**	**-**	**2,139**	**6,361,606**	**5,859**	**1,917**	**6,360,789**

A.1.7 Banking group - On-statement of financial position loans and receivables with customers: gross impaired positions

	Non-performing loans	Probable defaults	Impaired past due loans
A. Gross opening balance	**6,373**	**7,077**	
- including: positions transferred but not derecognised			
B. Increases			
B.1 transfers from performing loans	673	-	
B.2 transfers from other impaired loan categories			
B.3 Other increases	701	1,947	
C. Decreases		-	
C.1 transfers to performing loans		-	
C.2 derecognitions	2,181	3,263	
C.3 collections	562	875	
C.4 losses on sales			
C.5 transfers to other impaired loan categories			
C.6 other decreases			
D. Gross closing balance	**16**	**66**	
- including: positions transferred but not derecognised	4,987	4,820	

A.1.8 Banking group - On-statement of financial position loans and receivables with customers: changes in impaired positions

	Non-performing loans		Probable defaults		Impaired past due loans	
	Total	Including: negotiated exposures	Total	Including: negotiated exposures	Total	Including: negotiated exposures
A. Opening balance	**5,983**		**5,427**			
- including: positions transferred but not derecognised						
B. Increases						
B.1 Impairment losses	530		1,947			
B.1.bis losses on sales						
B.2 transfers from other impaired loan categories						
B.3 other increases						
C. Decreases						
C.1 fair value gains						
C.2 reversals of impairment losses due to collection						
C.2.bis gains on sales						
C.3 derecognitions						
C.4 transfers to other impaired loan categories	1,917		3,263			
C.5 other decreases						
D. Closing balance	**4,596**		**4,111**			
- including: positions transferred but not derecognised						

A.2 Classification of exposures using external and internal ratings

A.2.1 Banking group - Breakdown of credit exposure on and off-statement of financial position by external rating classes

	External rating class						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. On-statement of financial position	-	-	-	-	-	-	6,789,448	6,789,448
B. Derivatives	-	-	-	-	-	-		-
B.1 Financial derivatives	-	-	-	-	-	-	1,748	1,748
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees issued	-	-	-	-	-	-	1,093	1,093
D. Commitments to disburse funds	-	-	-	-	-	-	110,923	110,923
E. Other	-	-	-	-	-	-	234,207	234,207
Total	**-**	**-**	**-**	**-**	**-**	**-**	**7,137,419**	**7,137,419**

A.2.2 Banking group - Breakdown of credit exposure on and off-statement of financial position by internal rating classes

	Internal rating class						Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	
A. On-statement of financial position						6,789,448	6,789,448
B. Derivatives							
B.1 Financial derivatives						1,748	1,748
B.2 Credit derivatives						-	-
C. Guarantees issued						1,093	1,093
D. Commitments to disburse funds						110,923	110,923
E. Other						234,207	234,207
Total						**7,137,419**	**7,137,419**

A.3 BREAKDOWN OF GUARANTEED EXPOSURE BY TYPE OF GUARANTEE

A.3.1 Banking group: guaranteed loans and receivables with banks

	Net amount	Collateral (1)				Personal guarantees (2)									Total (1+2)
						Credit derivatives					Endorsement credits				
							Other derivatives								
		Mortgaged property	Property under finance lease	Securities	Other collateral	CLN	Government and central banks	Other government agencies	Banks	Other	Government and central banks	Other government agencies	Banks	Other	
1. Guaranteed loans:															
1.1. fully guaranteed	231,707	-	-	231,707	-	-	-	-	-	-	-	-	-	-	**231,707**
- including: impaired															
1.2. partly guaranteed															
- including: impaired															
2. Off-statement of financial position guaranteed loans:															
2.1. fully guaranteed															
- including: impaired															
2.2. partly guaranteed															
- including: impaired															

A.3.2 Banking group - Guaranteed loans and receivables with customers

	Net amount	Collateral (1)				Personal guarantees (2)									Total (1+2)
						Credit derivatives					Endorsement credits				
							Other derivatives								
		Mortgaged property	Property under finance lease	Securities	Other collateral	CLN	Government and central banks	Other government agencies	Banks	Other	Government and central banks	Other government agencies	Banks	Other	
1. Guaranteed loans:															
1.1. fully guaranteed	207,517	-	-	207,510	-	-	-	-	-	-	-	-	-	-	**207,510**
- including: impaired															
1.2. partly guaranteed															
- including: impaired															
2. Off-statement of financial position guaranteed loans:															
2.1. fully guaranteed															
- including: impaired															
2.2. partly guaranteed															
- including: impaired															

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURE

B.1 Banking group - Breakdown of loans and receivables with customers on and off-statement of financial position by business segment (carrying amount)

	Governments			Other government agencies			Financial companies		
	Carrying amount	Individual impairment	Collective impairment	Carrying amount	Individual impairment	Collective impairment	Carrying amount	Individual impairment	Collective impairment
A. On-statement of financial position									
A.1 Non-performing loans	-	-	-	-	-	-	391	1,491	-
- including: negotiated exposures									
A.2 Probable defaults	-	-	-	-	-	-	-	-	-
- including: negotiated exposures									
A.3 Impaired past due loans	-	-	-	-	-	-	-	-	-
- including: negotiated exposures									
B.4 Unimpaired exposures	3,170,093	-	-	1,550	-	45	1,693,260	-	-
- including: negotiated exposures									
TOTAL A	**3,170,093**	**-**	**-**	**1,550**	**-**	**45**	**1,693,650**	**1,491**	**-**
B. Off-statement of financial position									
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-
B.2 Probable defaults	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	2,199	-	-	302	-	-	107,159	-	-
TOTAL B	**2,199**	**-**	**-**	**302**	**-**	**-**	**107,159**	**-**	**-**
TOTAL (A + B) at 31/12/2016	**3,172,292**	**-**	**-**	**1,852**	**-**	**45**	**1,800,809**	**1,491**	**-**
TOTAL (A + B) at 31/12/2015	**2,593,837**	**-**	**-**	**1,397**	**-**	**-**	**2,656,604**	**1,491**	**-**

	Insurance companies			Non-financial companies			Other		
	Carrying amount	Individual impairment	Collective impairment	Carrying amount	Individual impairment	Collective impairment	Carrying amount	Individual impairment	Collective impairment
A. On-statement of financial position									
A.1 Non-performing loans	-	-	-	-	257	-	-	2,848	-
- including: negotiated exposures									
A.2 Probable defaults	-	-	-	-	-	-	709	-	4,111
- including: negotiated exposures									
A.3 Impaired past due loans	-	-	-	-	-	-	-	-	-
- including: negotiated exposures									
B.4 Unimpaired exposures	123	-	-	766	-	-	1,148,735	-	1,872
- including: negotiated exposures									
TOTAL A	**123**	**-**	**-**	**766**	**257**	**-**	**1,149,444**	**2,848**	**5,983**
B. Off-statement of financial position									
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-
B.2 Probable defaults	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	30	-	-	1,267	-	-	-	-	-
TOTAL B	**30**	**-**	**-**	**1,267**	**-**	**-**	**-**	**-**	**-**
TOTAL (A + B) at 31/12/2016	**153**	**-**	**-**	**2,033**	**257**	**-**	**1,149,444**	**2,848**	**5,983**
TOTAL (A + B) AT 31/12/2015	**109,365**	**-**	**-**	**32,187**	**257**	**-**	**969,606**	**4,235**	**7,647**

B.2 Banking group - Breakdown of loans and receivables with customers on and off-statement of financial position by geographical segment (carrying amount)

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment
A. On-statement of financial position										
A.1 Non-performing loans	391	4,596	-	-	-	-	-	-	-	-
A.2 Probable defaults	709	4,111	-	-	-	-	-	-	-	-
A.3 Impaired past due loans	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	5,885,102	1,872	60,396	-	68,280	-	749	-	-	-
TOTAL	**5,886,201**	**10,579**	**60,396**	**-**	**68,280**	**-**	**749**	**-**	**-**	**-**
B. Off-statement of financial position										
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Probable defaults	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	110,332	-	-	-	-	-	-	-	624	-
TOTAL	**110,332**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**624**	**-**
Total at 31/12/2016	**5,996,533**	**10,579**	**60,396**	**-**	**68,280**	**-**	**749**	**-**	**624**	**-**
Total at 31/12/2015	**6,239,219**	**13,630**	**67,811**	**-**	**55,715**	**-**	**249**	**-**	**3**	**-**

B.3 Banking group - Breakdown of loans and receivables with customers on and off-statement of financial position by geographical segment (carrying amount)

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment
A. On-statement of financial position										
A.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
A.2 Probable defaults	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due loans	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	721,660	-	38,092	-	8,004	-	5,303	-	763	-
TOTAL	**721,660**	**-**	**38,092**	**-**	**8,004**	**-**	**5,303**	**-**	**763**	**-**
B. Off-statement of financial position										
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Probable defaults	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	1,587	-	1,221	-	-	-	-	-	-	-
TOTAL	**1,587**	**-**	**1,221**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total at 31/12/2016	**723,246**	**-**	**39,314**	**-**	**8,004**	**-**	**5,303**	**-**	**763**	**-**
Total at 31/12/2015	**790,492**	**-**	**68,554**	**-**	**8,118**	**-**	**6,055**	**-**	**2,931**	**-**

C. SECURITISATIONS

The group has not undertaken these types of transaction.

D. DISCLOSURE ON STRUCTURED ENTITIES (OTHER THAN SECURITISATION VEHICLES)

D.1 Consolidated structured entities

Nothing to report.

D.2 Structured entities not consolidated for accounting purposes

D.2.1 Structured entities consolidated for supervisory purposes

Nothing to report.

D.2.2 Other structured entities

	Recognised assets	Total assets (A)	Recognised liabilities	Total liabilities (B)	Carrying amount (C = B-A)	Maximum exposure at risk to loss (D)	Difference between exposure at risk to loss and carrying amount (E = D-C)
2. OEIC units	Available-for-sale financial assets	39,765	-	-	39,765	135,000	95,235

E. TRANSFERS

The group has not performed any transfers.

F. BANKING GROUP - CREDIT RISK MEASUREMENT MODELS

The group does not have state-of-the-art tools to measure credit risk given its profile.

1.2 BANKING GROUP – MARKET RISKS

1.2.1 INTEREST RATE AND PRICE RISK - REGULATORY TRADING BOOK

QUALITATIVE DISCLOSURE

Market risk

Market risk is the risk of incurring losses generated by operating on the market for financial instruments (regulatory trading book), currencies and commodities, due to fluctuations in market factors or the issuer's situation. This risk is applicable to ICBPI as it manages financial instruments on the group's behalf. Activities that generate market risk are performed by the treasury and finance unit and the securities services department. Specifically, the treasury and finance unit performs investment and treasury transactions on EU and non-EU markets, it manages the AFT banking book and also manages day-to-day liquidity. The securities services department acts as a market marker and trades in the financial instruments requested by customers.

The finance regulation governs these activities and defines the operating limits for the subcomponents of market risk, such as currency risk, interest rate risk on the trading book, issuer risk and counterparty risk. In addition, the regulation sets operating limits for the various activities for the amounts involved, VaR, the stop loss as well as the criteria and methods to monitor positions.

The governance model in place to manage and monitor risks is based on the segregation between the management processes and the risk control processes on the one hand and, on the other, development of processes to manage and monitor risks in line with the group's hierarchical structure and by assigning proxies.

The treasury and finance unit and the securities services department report to the liquidity and finance committee, which analyses the group's positions and defines financial policies.

The first level controls are carried out by the treasury and finance unit and the securities services department for the activities related to them, while the second level controls are performed by the risk management unit. This unit monitors market risk on a daily basis using the VaR of the positions in securities and foreign currency. It also performs second level controls on compliance with assigned limits.

The risk management unit also checks and processes ex post the data related to the group's total risk positions each day and prepares the reports necessary to check the limits set by the finance regulation. It also performs specific tests (back testing and stress testing) to check the level of existing risk scenarios or future scenarios for the current portfolio. If the VaR limits are exceeded, the risk management unit manager promptly informs the relevant unit, its manager and the managing director. The risk management unit also informs the treasury and finance service unit and/or the securities services unit manager of situations that are close to exceeding their limits. The unit ensures that sufficient information about transactions involving derivatives is provided in its reports.

It monitors positions in securities and foreign currency using VaR with a confidence interval of 99% and a time horizon of 10 days, calculated using a parametric model. This test is performed on the entire portfolio, separating the HFT portfolio from the HTM portfolio and the AFS portfolio, which are monitored directly by the board of directors.

The VaR, defined to obtain a reasonable estimate of potential losses in normal market conditions, is not designed to, nor does it, include an analysis of extreme events. Stress tests are used to check the impact of extreme conditions on the portfolio and violations of the assumptions underlying the model used by identifying the remaining risk and providing information complementary to VaR.

Daily stress tests are performed on the VaR of securities and currencies as well as the daily calculation of VaR.

Basis risk

The basis risk is defined as the risk of losses caused by unmatched variations in the spot and future price that are similar but not identical. This risk is especially pertinent to banks that calculate their capital requirements using standard methods by offsetting positions in one or more equities included in an equity index with one or more future positions/other derivatives linked to this index or that offset opposing positions in futures on equity indexes that do not have the same expiry date, composition or both.

The group is not exposed to this risk as it does not use futures/derivatives to hedge positions exposed to market risk and, therefore, these instruments are not included in the calculation of the capital requirement for market risk using the standard method. The group's operations in banking book derivatives is limited to trading in OTC options which, as per its internal regulations, does not generate positions. The risk positions for other financial instruments are hedged by specular hedges.

QUANTITATIVE DISCLOSURE

1. Regulatory trading book: breakdown by residual maturity (repricing date) of on-statement of financial position financial assets and liabilities and derivatives

Currency: Euro

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets								
1.1 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	221	5,168	841	929	3,175	588	2	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities								
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	64	-	-	-	50	-	1	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	609	4,480	1,474	128	869	681	89	-
+ short positions	673	4,519	1,474	95	944	529	97	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	213,085	-	-	-	-	-	-
+ short positions	-	1,084,117	-	-	-	-	-	-

Currency: other

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets								
1.1 Debt instruments								
- with early repayment option	66	-	-	-	-	13	-	-
- other	12	-	-	2	6	153	89	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities								
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	30	-	-	-	29	-	235	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	1	40	-	-	-	-	-
+ short positions	-	43	1	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	1,079,995	-	-	-	-	-	-
+ short positions	-	214,528	-	-	-	-	-	-

1.2.2 INTEREST RATE AND PRICE RISKS - BANKING BOOK

QUALITATIVE DISCLOSURE

A.General aspects, management and measurement of interest rate risk

The banking book's interest rate risk is the risk of losses in its value due to potential changes in interest rates.

The main source of this type of risk is the repricing risk, i.e., the risk arising from the mismatch of maturity dates and repricing of assets and liabilities, the main aspects of which are:

- yield curve risk, the risk arising from the group's exposure to changes in the slope and shape of the return curve;
- basis risk, the risk arising from the mismatching of changes in interest rates paid and received on different instruments that may have similar repricing characteristics.

This risk relates solely to the parent for its banking book.

The group's funding and lending have historically mainly being obtained or granted through current accounts or with short-term maturities (nearly all within three months). As most of the liquidity in current accounts is that in the giro accounts, which are used for operating purposes and not for funding and/or lending transactions, the group's actual exposure to this risk is rather limited.

The risk management unit monitors this risk daily to assess its impact using a method based on the guidance set out in Annex C of Title III, Chapter 1 of Bank of Italy Circular no. 285, which assesses the absorption in terms of internal capital of a variation of 200 bp on the return curve on the banking book, weighing the various exposures depending on their residual life and adopting an internal method to classify current accounts, as required by the above-mentioned supervisory regulations.

With respect to CartaSi and its business, positions are concentrated in the "within one month" category with minimum exposure. Moreover, the mismatching due to the issuing and acquiring activities solely relates to the settlement date and not to the value date, which is the same for credit and debit movements.

General aspects, management and measurement of price risk

The banking book's price risk mainly refers to the equity investments held for the long term and financial instruments, mostly Italian government bonds, which are not included in the trading book as they are also held for investment purposes.

The board of directors is the sole body responsible for the related internal controls for the latter instruments.

B1. Fair value hedges

Not applicable.

C.Cash flow hedges

The group's hedging strategies are generic and may also refer to the interest rate risk applicable to the on-demand items.

QUANTITATIVE DISCLOSURE

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

Currency: Euro

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets								
1.1 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	595,762	98,890	944,928	1,011	1,549,299	-	-	-
1.2 Financing to banks	151,004	547,864	-	-	-	-	-	-
1.3 Financing to customers								
- current accounts	1,220,881	-	-	-	391	-	-	-
- other financing								
- with early repayment option	-	-	-	-	-	-	-	-
- other	1,172,183	278,290	54,128	67,440	34,233	-	-	-
2. Liabilities								
2.1 Due to customers								
- current accounts	4,398,579	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	350,359	258,894	-	-	-	-	-	-
2.2 Due to banks								
- current accounts	1,199,662	-	-	-	-	-	-	-
- other payables	199,227	-	-	-	-	-	-	-
2.3 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions								
+ long positions	-	-	-	40,000	-	-	-	-
+ short positions	40,000	-	-	-	-	-	-	-

Currency: other

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets								
1.1 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	43,891	513	101	248	-	-	-	-
1.3 Financing to customers								
- current accounts	16,984	-	-	-	-	-	-	-
- other financing								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Liabilities								
2.1 Due to customers								
- current accounts	758,592	-	-	-	-	-	-	-
- other payables								
- with early repayment option	-	-	-	-	-	-	-	-
- other	356	-	-	-	-	-	-	-
2.2 Due to banks								
- current accounts	81,453	-	-	-	-	-	-	-
- other payables	-	86,771	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

1.2.3 CURRENCY RISK

QUALITATIVE DISCLOSURE

General aspects, management and measurement of currency risk

Currency risk arises on the mismatch between foreign currency assets and liabilities (cash and forward) for each currency, originating from positions taken on by the centres specialised in market risk, within the assigned limits and proxies.

Currency risk nearly entirely arises on foreign currency trading activities carried out through trading in market instruments. The risk management unit monitors this risk constantly by calculating the VaR while the treasury unit performs the relevant first level controls.

The group's exposure to currency risk, calculated using the net foreign currency positions and a method in line with the supervisory regulations, is contained because every foreign currency transaction with institutional counterparties that generates a currency risk is usually hedged on the market with an offsetting transaction.

It only maintains positions exposed to currency risk within very limited ceilings (which are always fully respected) set for the total maximum exposure, for each currency and VaR.

Currency hedges

The trading book is completely hedged with spot forex positions.

The risk management unit checks that the VaR on existing positions is always within the limits set by the finance regulation every day.

Transfer risk

The transfer risk is defined as the risk that a bank, exposed to a party that finances itself in a currency different to that in which it earns most of its income, makes losses due to the debtor's difficulties in converting its currency into the currency of its exposure.

The group is potentially exposed to this risk due to its credit exposures in foreign currencies and Euro credit exposures of parties based in countries with a legal tender that is not the Euro.

In both cases, these exposures mostly relate to the parent, as the other group companies' exposures are only in Euros and the counterparties (cardholders and merchants) for CartaSi are parties with tax residence in Italy, for which it is presumed that they have liquidity in Euros.

A detailed analysis of these exposures shows that most of them are with operators, such as Euroclear, Clearstream, BNP Paribs and Bank of New York that operate as multi-currency settlement houses. Therefore, it can be assumed that they are able to convert currencies except in extreme conditions of their illiquidity.

Therefore, the group's transfer risk is very modest, especially if compared to the entire credit risk (of which it can be considered to be an additional component). The amount and composition of exposures potentially exposed to transfer risk are monitored every six months to identify any changes.

QUANTITATIVE DISCLOSURE

1. Breakdown of assets, liabilities and derivatives by currency

	Currency					
	US dollar	**Yen**	**Pound sterling**	**Swiss franc**	**Canadian dollar**	**Other currencies**
A. Financial assets						
A.1 Debt instruments	347	-	-	-	-	-
A.2 Equity instruments	1	-	-	-	-	155
A.3 Financing to banks	10,155	6,852	5,875	1,829	1,808	18,233
A.4 Financing to customers	15,061	50	-	240	7	1,625
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	12	19	7	21	5	13
C. Financial liabilities	-	-	-	-	-	-
C.1 Due to banks	137,213	14,380	492	3,586	1,702	10,867
C.2 Due to customers	455,302	110,102	108,642	27,119	22,204	36,751
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives	-	-	-	-	-	-
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ long positions	681,610	195,805	110,987	37,497	23,081	31,016
+ short positions	116,578	78,180	7,720	8,743	972	2,336
Total assets	**707,185**	**202,725**	**116,870**	**39,589**	**24,900**	**51,042**
Total liabilities	**709,094**	**202,662**	**116,855**	**39,448**	**24,877**	**49,954**
Difference	**-1,909**	**64**	**15**	**141**	**23**	**1,089**

1.2.4 DERIVATIVES

The group's operations in derivatives and foreign currency relate mainly to matching trades performed on behalf of its customers.
ICBPI does not have innovative or complex financial instruments. It only uses overnight interest rate swaps to hedge interest rate risk on medium to long-term bank deposits.

A. FINANCIAL DERIVATIVES

A.1 Regulatory trading book: notional amounts at the reporting date and average amounts

	31/12/2016		31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt instruments and interest rates				
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share indexes				
a) Options	-	-	457	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold				
a) Options	-	-	-	-
b) Swaps	62,731	-	68,837	-
c) Forwards	1,101,122	-	698,759	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	-	-
Total	**1,163,853**	**-**	**768,053**	**-**

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

	Positive fair value			
	31/12/2016		31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book				
a) Options	-	-	229	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	1,374	-	5,204	-
f) Futures	-	-	-	-
g) Other	373	-	176	-
B. Banking book - hedging				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**1,748**	**-**	**5,609**	**-**

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

	Negative fair value			
	31/12/2016		31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book				
a) Options	-	-	229	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	7,350	-	2,724	-
f) Futures	-	-	-	-
g) Other	278	-	1,096	-
B. Banking book - hedging				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**7,629**	**-**	**4,049**	**-**

A.5 OTC financial derivatives - regulatory trading book: notional amounts, gross positive and negative fair value by counterparty - contracts not included in netting agreements

	Governments and central banks	Other government agencies	Banks	Financial companies	Insurance companies	Non-financial companies	Other
1) Debt instruments and interest rates							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2) Equity instruments and share indexes							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currencies and gold							
- notional amount	-	-	1,074,487	89,366	-	-	-
- positive fair value	-	-	1,597	150	-	-	-
- negative fair value	-	-	6,858	771	-	-	-
- future exposure	-	-	8,286	894	-	-	-
4) Other assets							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
Total	**-**	**-**	**1,091,230**	**91,181**	**-**	**-**	**-**

A.9 Residual maturity of OTC financial derivatives: notional amounts

	Up to 1 year	From 1 to 5 years	After 5 years	Total
A. Regulatory trading book				
A.1 Financial derivatives on debt instruments and interest rates	-	-	-	-
A.2 Financial derivatives on equity instruments and share indexes	-	-	-	-
A.3 Financial derivatives on currencies and gold	1,163,853	-	-	1,163,853
A.4 Financial derivatives on other assets	-	-	-	-
B. Banking book				
B.1 Financial derivatives on debt instruments and interest rates	-	-	-	-
B.2 Financial derivatives on equity instruments and share indexes	-	-	-	-
B.3 Financial derivatives on currencies and gold	-	-	-	-
B.4 Financial derivatives on other assets	-	-	-	-
Total at 31/12/2016	**1,163,853**	**-**	**-**	**1,163,853**
Total at 31/12/2015	**768,053**	**-**	**-**	**768,053**

1.3 Banking group – LIQUIDITY RISK

QUALITATIVE DISCLOSURE

A. General aspects, management and measurement of liquidity risk

Liquidity risk is the risk that the group is unable to meet its payment commitments due to its inability to raise funds on the market (funding liquidity risk) and/or to disinvest its assets (market liquidity risk). This risk includes the risk of meeting its commitments at non-market costs, i.e., incurring high costs to obtain funding or (and sometimes simultaneously) incurring losses when disinvesting assets.

This risk is borne by the parent that manages, as a bank, its liquidity and the liquidity requirements of various group companies. With specific regard to CartaSi's requirements, it provides it with suitable credit facilities for the funds necessary to cover the time gap between payment to the merchants and collection from the cardholders and settlement with the circuits, also for the issuing and acquiring servicing activities. At present, CartaSi has some credit facilities from customer banks, which are used when it requires significant funds (e.g., to cover transactions performed in December).

The group's general liquidity risk management policy is characterised by modest risk appetite and prudently privileges a balance between assets and liabilities as part of its strategy to increase profitability. Deadlines and amounts of its cash flows allow it to limit liquidity risk with the balanced return of funds, notwithstanding the fact that the group is very capable of financing itself in very short periods (one to three days).

The treasury and finance unit manages liquidity to ensure financial balance between deadlines and between assets and liabilities in order to avoid overusing current and potential sources of funds.

The parent, ICBPI, has regular and ongoing access to credit when the market is stable and liquidity flow are normal, as it has banking counterparties that have approved operating credit facilities which it can use.

Therefore, the group is not significantly exposed to liquidity risk. Its liabilities mainly consist of current accounts with banks or customers set up to be used as part of its core business rather than for funding purposes. An analysis of its due dates does not show any critical issues, given the nature of the underlying transactions. Moreover, with respect to its positions other than current accounts, there are no critical issues relating to acceleration clauses or clauses requiring additional guarantees if the group companies are downgraded.

The related liquidity policy and contingency funding plan, approved by the parent's board of directors, sets the guidelines for liquidity management (liquidity policy) and the rules to be adopted in a liquidity crisis (contingency funding plan). It incorporates the most recent regulatory updates (Bank of Italy Circular no. 285/2013) and the principles of the group's risk policy, thus integrating and completing the rules defined in the finance regulation.

The liquidity policy defines the actions to be performed daily to ensure a balance between cash inflows and outflows by monitoring existing and future financial positions. It also includes a vast range of indicators to facilitate the monitoring of the bank's liquidity profile and to promptly identify any deterioration caused by internal factors or systemic factors.

The contingency funding plan (CFP) assesses the actions to be taken if there is a drastic reduction in liquidity and the group has certain lending commitments (e-money service and lending transactions that cannot easily be converted into liquidity) caused by either sector-wide liquidity crises or specific liquidity crises. It specifically describes what happens when a normal operating situation deteriorates into an operating stress or crisis situation, based on trends in quantitative and/or qualitative indicators (internal or sector) that are monitored daily. The plan also presents how to manage stress or crisis situations and specifies how the relevant units are to react and their responsibilities.

Liquidity risk is assessed by monitoring the accumulated balance of the daily situation each day, which is the most critical on the day before the debit of CartaSi transactions (made on the 15th of each month or if the 15th is a holiday, the next business day), considering the group's typical modus operandi. This process was introduced in May 2012 to allow the timely intervention when a cardholder's liquidity position worsens. The results of this process are included in the weekly preparation of the relevant indicator. Once a day, the risk management unit performs a simulation based on the same stress situations applied to the weekly monitoring. It calculates the run-off ratios for the different on demand items related to the "critical" category using the compound interest method and recalculates the accumulated balance in a stress situation, being the sum of the balance in a non-stress situation and outflows required in a stress situation.

Once a week, the risk management unit checks the net accumulated balance of the positions falling due (using the closing positions every Tuesday evening), including the group companies' expected cash flows, applying the method indicated by Bank of Italy. The net accumulated balance of the positions falling due is calculated considering the inflows and outflows expected during the different "due" categories (11 in total, which go from one day to four months). The schedule also includes data about forecast unrecorded flows or future flows the exact amount of which are not known, such as those related to CartaSi's issuing and acquiring activities. The risk management unit then sends Bank of Italy a liquidity report once a week.

The treasury and finance unit monitors and checks cash flows and estimates their trends during a business day. The intraday liquidity risk relates to the time mismatch between incoming and outgoing payment flows (the latter have different daily cut-offs). In order to mitigate these risks, the regulators require that banks have an appropriate intraday reserve (consisting of eligible, readily convertible into cash securities) to cover their obligations (specific risk) or the sudden illiquidity of markets or bankruptcy of a counterparty in the settlement system (sector risk). Accordingly, the parent has securities (CCT Italian treasury credit certificates and eligible bank bonds) as its intraday reserve for an amount deemed suitable to cover its specific operating needs based on an estimate of the intraday cash outflows.

The treasury and finance unit also closely monitors the group's liquidity held in an account with the Italian central bank so as to cover its commitments arising from target movements.

The TIT system

The liquidity risk governance and management tools used by the group include the TIT system (internal transfer of funds system), introduced to comply with the provisions of Bank of Italy Circular no. 263 (title V, chapter 2, section IV). As the group's only bank, ICBPI S.p.A. has used this system since 2012 and revises it annually.

LCR/NSFR

In 2010, the group introduced the assessment and analysis procedures to make its monitoring of liquidity consistent with the requirements of the Basel Committee specified in the "International framework for liquidity risk measurement, standards and monitoring" as well as the additional guidance and regulations issued by the control bodies and authorities (e.g., the CRR Regulation and the CRD IV Directive issued by the European Commission to implement the Basel Committee's indications at EU level).

These requirements introduced, inter alia, two ratios to measure liquidity, the LCR (liquidity coverage ratio) and the NSFR (net stable funding ratio). They are used to monitor short-term liquidity (one month) and structural liquidity (one year), respectively. Starting from December 31st, 2011 and as part of the QIS (quantitative impact study) on the impact of Basel 3 regulations, the group has sent Bank of Italy half yearly reports showing the results of its calculation of the LCR using its financial reporting data.

The group's liquidity position remained within the risk limits set by its current liquidity policy in 2016 and, indeed, the regulatory ratio established by Basel 3 (LCR) was complied with, being better than the established values.

Liquidity and risk appetite framework

Liquidity is one of the factors included in the risk appetite framework (RAF) and is considered to be one of the most important for the group. Its inclusion is justified by the importance in managing liquidity in the current market situation and given the specific nature of the cash inflows and outflows generated by the group's business.

The RAF defines the following two liquidity parameters:

- **Liquidity Coverage Ratio – LCR**, i.e., the ratio of liquid assets (HQLA - high quality liquid assets) to net cash flows in the 30 days of a very acute stress scenario;
- **the ratio of the minimum cumulated net balance of the "critical bracket"** (minimum daily amount for the quarter) to total assets (most recent figure).

The framework defines parameters for each category that are the maximum risk limit the group intends to assume, the best risk limit (risk target) and an early warning level (risk trigger), which when breached, triggers contingency plans and/or mitigation actions to avoid reaching the risk limit.

The liquidity risk tolerance threshold[1], defined as the maximum risk exposure possible in a normal business situation (going concern) integrated by a stress scenario, is the risk limit.

The risk limits associated with the two ratios are:

- **Liquidity Coverage Ratio – LCR:** 80%.

This ratio has already been calculated assuming a severe stress scenario (combined idiosyncratic and market shock scenario simulation) with a risk limit above the legal minimum effective since January 2016[2], of 70%.

The group monitors the indicator using the monthly supervisory report, which requires the risk management unit and the financial risk unit to perform the related checks (consistency and performance) before the reporting unit sends it to Bank of Italy.

- **Ratio of the cumulated net minimum balance of the "critical bracket" and total assets:** 1%.

The cumulated net minimum balance of the "critical bracket" is the minimum daily amount recorded each quarter of the smaller liquidity situation compared to a normal business scenario.

[1] *See Bank of Italy Circular no. 285 and subsequent amendments.*

[2] *The LCR indicator became applicable in October 2015 with a minimum threshold of 60%, which increases to 70% from January 2016, 80% from January 2017 and 100% from January 2018.*

QUANTITATIVE DISCLOSURE

1. Breakdown of financial assets and liabilities by residual contractual maturity

Currency: Euro

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
Assets										
A.1 Government bonds	-	-	-	-	83,000	176,500	731,500	2,009,000	29	-
A.2 Other debt instruments	-	-	-	1,660	2,166	14,817	2,679	13,995	796	-
A.3 OEIC units	40,261	-	-	-	-	-	-	-	-	-
A.4 Financing										
banks	412,534	46,915	152,772	52,880	97,252	-	-	-	-	170,519
customers	2,373,191	3	51,322	182,454	44,605	54,134	67,450	34,624	-	-
Liabilities										
B.1 Deposits and current accounts										
banks	288,603	-	-	112,466	248,291	-	-	16,210	-	-
customers	4,626,856	-	-	-	-	-	-	209	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	908,394	46,910	34,785	52,879	97,230	-	-	167	1	-
Off-statement of financial position transactions										
C.1 Financial derivatives with exchange of principal										
long positions	-	65,024	-	24,782	118,169	1,472	135	1,284	985	-
short positions	-	935,990	21	24,808	74,572	1,472	95	1,503	973	-
C.2 Financial derivatives without exchange of principal										
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received										
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
long positions	-	-	-	-	-	-	40,000	-	-	-
short positions	40,000	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-

Currency: other

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
Assets										
A.1 Government bonds	-	-	-	-	-	-	-	-	135	-
A.2 Other debt instruments	-	-	-	-	10	-	2	70	81	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing										
banks	43,891	47	279	186	-	100	247	-	-	-
customers	16,984	-	-	-	-	-	-	-	-	-
Liabilities										
B.1 Deposits and current accounts										
banks	81,453	86,330	142	142	138	-	-	-	-	-
customers	758,592	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	1,233	-	-	-	-	-	-	31	285	-
Off-statement of financial position transactions										
C.1 Financial derivatives with exchange of principal										
long positions	-	927,793	21	24,935	74,039	40	-	-	-	-
short positions	-	62,389	-	24,935	117,724	1	-	-	-	-
C.2 Financial derivatives without exchange of principal										
long positions	373	-	-	-	-	-	-	-	-	-
short positions	278	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received										
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-

1.4 Banking group - OPERATIONAL RISKS

QUALITATIVE DISCLOSURE

A. General aspects, management and measurement of liquidity risk

Operational risk is the risk of losses arising from errors or shortfalls in internal procedures, human resources or systems and external factors, including judicial risk. This risk also comprises legal risk, model risk and the risk related to financial transactions including those related to market risk.

Operational risk is characterised by cause-effect relationships whereby if one or more trigger events occur, this leads to a detrimental event which is directly linked to an economic loss. Therefore, an operating loss is the result of negative economic effects created by operating events, recorded by the bank and that affect its profit or loss.

The main characteristic of operational risks is that they are inherent to the group's business and are, therefore, unavoidable and omnipresent. This implies that they are inherent in the decision to perform a certain activity and, in general, the bank's operations rather than, in the case of the other risks, the group intentionally takes credit or financial positions based on its risk appetite to achieve its target risk/return profile. In order to measure the bank's exposure to operational risks and the effects of any mitigating actions, it has to combine the qualitative and quantitative information.

The group manages its operational risks through specific insurance policies and through:

- a suitable internal organisation with defined duties and responsibilities, ensuring the segregation of duties between the control and operating units;
- adoption of first level controls for each process to:

  - monitor their correct performance;

  - promptly identify any irregularities and, if necessary, introduction of timely remedial actions;

  - identify technical-organisational defects and ensure their timely analysis and correction;
- introduction of a code of ethics for employees;
- internal regulations;
- a risk control self-assessment (RCSA);
- a loss data collection (LDC) process;
- specific monitoring tools for CartaSi's e-money business operational risks;
- specific computer risk controls.

The main procedures for ensuring that the operational risk is managed correctly by the risk management unit are listed below:

- definition and updating of the operational risk management methods;

- second level controls over operational risk management;
- collection and analysis of operating loss data by type of event and business segment;
- definition of specific risk indicators and escalation proposals; performance and coordination of the RCSA;
- assistance with identification of operational risks inherent in new services/products during the design stage;
- appointment of an internal reference person to design and monitor the information safety management system;
- preparation of periodic reports or reports on specific events to general management, the control bodies and the internal audit and compliance units;
- annual valuation of the assessment framework for operational risks related to retail payment systems, carried out with the payment unit as per the Italian central bank's instructions in the relevant regulations.

The group has adopted an operational risk framework, which includes an operational risk policy and the RCSA and loss data collection methods as specified by Bank of Italy with respect to prudent supervisory requirements.

The operational risk policy has the following objectives:

- set out the general operational risk governance principles, the aims, methods and tools adopted;
- present the roles and responsibilities of the units involved;
- describe the operational risk governance framework processes and reference models.

All the group units are required to contribute to the operational risk management (ORM) process to the extent of their duties and to encourage the circulation of a risk management culture at all levels.

Maximum attention is paid to the transmission and sharing of the risk culture, through periodic updates of the documents (Tableau de Bord, ICAAP, Risk Appetite Framework), and through initiatives that are in place to address specific issues.

The operational risk framework is structured to adopt identification and assessment methods in line with market best practices. Its structure is also in line with the regulations for adoption of the TSA (traditional standardised approach).

As part of this ORM framework, the risk control self-assessment (RCSA) process is used for scenario analysis with the direct involvement of the internal units. It is a useful management tool, especially for the correct understanding of the business processes' riskiness by the units. The RCSA activities are part of a continuous monitoring process from the point of view of operational risks and are not only required on an annual basis, but also in the event of significant changes in terms of organization and business to maintain a constant awareness of the risks managed or handle. As well as the ex-ante identification of operational risks, the assessment is fundamental to disseminate a control culture. The RCSA method also includes the model used to assess the effect of operating events on the group's reputation.

The RCSA process was formalised in the group's publication of its regulation, which specify the activities, roles and methods used:

- identification of the processes to be assessed;
- identification of adverse events and related causes that could have an economic fallout, within the process, and possibly also damage the group's reputation;
- measurement of the identified risks and the effectiveness of the related mitigation controls;
- calculation of the total exposure to operational risk and identification of any additional mitigation requirements to contain the risks.

Planning and development of the controls are subjected to follow-up processes through their inclusion in a dashboard and are monitored by the control units (risk management, compliance and internal audit), which check all the actions taken to improve the internal controls. The findings of the monitoring process are assembled once a quarter and communicated regularly to the internal bodies to provide a complete picture of the main critical issues the group is exposed to and the status of the remedial actions taken or to be implemented.

The group is fully conscious that, as well as affecting its results, loss-generating events may significantly damage its reputation and standing. Therefore, it has a management system in place to minimise the effects which relies on a method to identify, measure and mitigate them in qualitative and quantitative terms. This system identifies the risk of both actual losses and potential risk.

The loss data collection process is a key part of the operational risks management system because it both guarantees an understanding of the most significant loss factors over time and provides statistics useful to better analyse identified risks. Moreover, the identification and measurement of potentially risky activities allows the bank to monitor and identify over time the most risky factors and to intervene to remove the reasons and/or strengthen its controls.

The LDC process is based on the LDC method approved as part of the operational risk policy and its objective is to estimate the value of an economic effect generated by an operating event, caused by one or more risk factors. The information is the result of a relationship between different factors: the event, the risk factor and the effect. An analysis of this relationship is essential to correctly forecast the losses generated by operational risks and to measure the risks.

Losses used for the loss data collection are those that directly affect the group's profit or loss and are not due to commercial policies or the offsetting of costs and revenues. The general principles underlying the LDC are:

- the range of loss events to be assessed (in terms of processes, business lines and companies);
- the accuracy of the information;
- the timeliness and continuity of the data collection.

Adverse events are identified by the reference unit manager promptly when they take place. Accordingly and in order to allow a complete analysis of the operational risks, the loss data collection also includes negative events that took place but did not lead to actual losses ("near losses").

The operating details and methods to collect loss data are set out in the Loss data collection - management methods and processes for the ICBPI group, which is an integral part of the Operational risk management policy.

A fundamental operational risk mitigation tool is the business continuity and disaster recovery plan, which is revised annually as required by the supervisory instructions about internal controls. Bank of Italy extended the concept of business continuity to all critical "business processes", not just the technological component but all the factors (human resources, logistics, essential services, etc.) that assist the mitigation of operational risks in new crisis situations.

Business continuity includes all those measures designed to reduce to an acceptable level the damage caused by accidents or catastrophes that could directly or indirectly affect the bank while the disaster recovery plan sets out the technical and organisational methods to resolve events that cause the unavailability of data processing centres. It is designed to ensure that the important IT procedures can continue to be performed at alternative sites.

Part F - EQUITY

Section 1 – Equity

A. QUALITATIVE DISCLOSURE

The aggregated balance available for the purposes of the allocation process is the one relevant for supervisory purposes. In this approach the supervisory rules are a minimum requirement.

ICBPI group equity policy is based on full compliance with the supervisory regulation requirements, which identify equity as the main tool against unexpected losses arising from the various risks (credit, market and operational) taken on by the group. Therefore, equity availability is an indispensable tool supporting the group development plans.

In accordance with internal procedures, the relevant departments regularly monitor the group use of capital and its compliance with capital requirements. These figures are reported with different frequencies to senior management and the board of directors, which are the bodies responsible for deciding, in line with their delegated powers, the methods that the group should use to pursue its capital management objectives. Similarly, when new activities with potential impacts on the use of capital are carried out, ICBPI group forecasts the related effects on equity and their suitability.

Lastly, the group dividend distribution policies are also aimed at ensuring a suitable capitalization level, in line with its development objectives.

B. QUANTITATIVE DISCLOSURE

B.1 Equity: breakdown by type of entity

	Banking group	Insurance companies	Other companies	Eliminations and consolidation adjustments	Total
Share capital	43,906				43,906
Share premium	148,310				148,310
Reserves					
- income-related	1,697,388				1,697,388
a) legal					
b) statutory					
c) treasury shares					
d) other	10,848				10,848
- other					
Equity instruments					
(Treasury shares)	-32				-32
Valuation reserves					
- Available-for-sale financial assets	22,770				22,770
- Property, equipment and investment property					
- Intangible assets					
- Hedges of investments in foreign operations					
- Cash flow hedges					
- Exchange rate gains (losses)					
- Non-current assets held for sale					
- Net actuarial losses on defined benefit pension plans	-3,078				-3,078
- Share of valuation reserves of equity-accounted investees					
- Special revaluation laws	46,222				46,222
Profit for the year	105,129				105,129
Equity	**2,071,462**	**-**	**-**	**-**	**2,071,462**

B.2 Fair value reserves (AFS financial assets): breakdown

	Banking group		Insurance companies		Other companies		Eliminations and consolidation adjustments		Total	
	Fair value gains	Fair value losses	Fair value gains	Fair value losses	Fair value gains	Fair value losses	Fair value gains	Fair value losses	Fair value gains	Fair value losses
1. Debt instruments	17,702								17,702	-
2. Equity instruments	5,068								5,068	-
3. OEIC units									-	-
4. Financing									-	-
31/12/2016	**22,770**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**22,770**	**-**
31/12/2015	**195,956**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**195,956**	**-**

B.3 Fair value reserves (AFS financial assets): changes

	Debt instruments	Equity instruments	OEIC units	Financing
1. Opening balance	**24,488**	**171,468**	**-**	**-**
2. Increases				
2.1 Fair value gains	-	-	-	-
2.2 Reclassification of fair value losses to profit or loss:	-	-	-	-
due to impairment	-	-	-	-
on sale	-	-	-	-
2.3 Other increases	-	-	-	-
3. Decreases				
3.1 Fair value losses	-	166,400		
3.2 Impairment losses	-	-		
3.3 Reclassification of fair value gains to profit or loss: on sale	-	-		
3.4 Other decreases	6,786	-		
4. Closing balance	**17,702**	**5,068**	**-**	**-**

B.4 Actuarial reserves: changes

The actuarial reserve solely refers to the Italian post-employment benefits vested before 1 January 2006. As there are no plan assets, the reserve only includes the actuarial gains or losses on the liability,which changed as follows:

	Gross actuarial losses	Income taxes	Actuarial reserve	
			Total	including attributable to the owners of the parent
Opening balance	**-4,503**	**244**	**-4,260**	**-4,080**
Actual gains	-	-	-	
Actuarial losses	691	-190	501	1,002
Closing balance	**-3,812**	**54**	**-3,759**	**-3,078**

Section 2 - Own funds and ratios

2.2 - Bank own funds

A. QUALITATIVE DISCLOSURE

With the acquisition of a controlling interest in Istituto Centrale delle Banche Popolari Italiane S.p.A. by a consortium of private equity funds led by Advent International Corporation, Bain Capital Investors LLC, and Clessidra SGR Spa, since 18 December 2015 Icbpi must comply with the provisions of EU Regulation based on the accounting situation referring to the scope of consolidation with the company Mercury UK HoldCo Ltd as the parent.

PART G – BUSINESS COMBINATIONS REGARDING COMPANIES OR DIVISIONS

Section 1 - Transactions achieved during the year

On November 23rd, 2016, the Extraordinary General Meeting of ICBPI' shareholders approved the reverse merger of Mercury Italy Srl in ICBPI (the "Merger"). The Merger became effective on December 28th, 2016. From the effective date of the Merger of Mercury Italy Srl in ICBPI, Mercury HoldCo UK Limited has become the main shareholder of ICBPI with a stake of 89.5%.

As a result of this transaction, the assets of Mercury Italy Srl related to ICBPI were offset. Therefore, a deficit equal to the difference between the value of the investment and the equity of the merged company Mercury Italy Srl arose. Assuming that:

- reverse mergers must have the same accounting effects of direct mergers;
- in "under common control" mergers, the continuity of values with the consolidated financial statements accounting principle must be adopted when allocating the consolidation deficit;

the aforementioned consolidation deficit has been allocated in ICBPI Group's consolidated financial statements consistently with the allocation process of the consolidation difference in Mercury UK HoldCo's consolidated financial statement. Accordingly, the ICBPI Group's consolidated financial statements, it is aligned to the Mercury UK HoldCo's consolidated financial statements.

The residual part of that deficit, not allocated to other items, amounting to Euro 1.064.160 thousand, has been accounted, consistently whit Mercury UK HoldCo's consolidated financial statement, to goodwill.

Section 2 - Business combinations after the reporting period

Not applicable

Section 3 – Retrospective adjustments

Not applicable

Part H - RELATED PARTY TRANSACTIONS

1. Fees of key management personnel

The fees paid by the ICBPI Group to its directors and key management personnel as defined in part 2, are set out below.

	31/12/2016
Directors	1,818
Other key management personnel and members of supervisory committees	15,780
Total	**17,598**

2. Related party transactions

The aim of IAS 24 (Related party transactions) is to ensure that an entity's financial statements include the additional disclosures necessary to understand whether its financial position and performance may be altered by related party transactions and balances.

Based on this standard, applied to its organisational and governance structure, the ICBPI Group identified the following related parties:

- associates, i.e. those companies over which the parent directly or indirectly exercises significant influence, as defined by IAS 28;
- key management personnel and members of supervisory bodies, as well as their close family members and companies over which they exercise control or significant influence;
- **pension** funds for the group employees and their related parties;
- companies that exercise significant influence over ICBPI.

The effects of transactions carried out with the related parties identified above are summarised in the following table.

The effects and balances of transactions with subsidiaries are not included as they are eliminated upon consolidation. The other related party transactions are part of the ordinary banking activities and are usually carried out on an arm's length basis.

RELATED PARTY TRANSACTIONS			
(€'000)	TOTAL	Other related parties	Directors, managers and members of supervisory bodies
70. Loans and receivables with customers	2,844,529	41,913	
160. Other assets	445,378	12	
20. Due to customers	6,255,341		3,352
100. Other liabilities	646,141	1,361	
10. Interest and similar income	65,095	25	
180. Administrative expenses	557,545	6,179	17,598
220. Other operating income, net	285,434	20	

The transactions are governed by specific agreements that, while aiming at optimising synergies and economies of scale and purpose, make reference to objective parameters that are constant over time, characterised by transparency and substantial fairness. Transfer pricing is defined and formalised based on parameters that account for the actual use of the service by each end user.

Part I - SHARE-BASED PAYMENTS

None.

Part L - Segment reporting

Segment reporting complies with IFRS 8, which did not lead to substantial changes in the identification of the operating segments and reporting to management when introduced, compared to the previous requirements of IAS 14.

Segment reporting is consistent with the group's organisational and industrial structure in 2014, in line with its business plan and as required by its regulation.

Reporting by geographical segments is not included as the group operates only in Italy and the breakdown of assets, liabilities, revenue and costs by geographical segment was meaningless.

Reporting by business segment includes, in order of importance, the segments that may be identified within the group's organisation and specifically:

E-money

It comprises CartaSi and Help Line and its integrated activities are as follows:

- financial and operating services relating to the issue and acceptance of payment cards and related management services;
- payment card terminal management (POS and ATM).

Payments

It comprises an operating division of the parent, which carries out the following integrated activities:

- banking payment services and related back-office services for banks, companies and bodies;
- interbank payment systems for companies and bodies and related management services and e-banking;
- IT and computer-based services relating to payment systems.

Securities services

It comprises an operating division of the parent, which carries out the following integrated activities:

- securities custody and administration services;
- fund services;
- investment and investment-related services for qualified parties and professional customers.

Application outsourcing and innovative services

It comprises Oasi, which carries out the following integrated activities:

- IT systems for supervisory reporting and management systems;
- anti-money laundering, safety and internal control systems;
- development and provision of training courses.

Other group activities

This segment manages the activities that are not carried out by the parent's business units. Specifically:

- credit and financial activities for the relevant business segments;
- property management;
- equity investment management;
- group management and coordination;
- other activities of the consolidated companies.

A.1 Breakdown by business segment: income statement

The results of operations for 2016 of each of the above business segments are set out below.

ICBPI GROUP: SEGMENT REPORTING							
YTD Dec, 31 (€/000)	**E-money**	**Payments**	**Securities Services**	**Application Outsourcing**	**Other group activities**	**Consolidation adjustment**	**Consolidated financial statements**
Net fee and commission income	477,466	89,431	57,831	28,017	1,393	- 6,095	648,043
Net interest income	- 8,010	1,740	5,261	- 5	37,064	231	36,281
Net trading/hedging income	- 560	-	3,921	-	315	-	3,676
Dividends from equity investments and AFS	108	-	-	-	419	-	527
Operating revenue	**469,004**	**91,171**	**67,013**	**28,012**	**39,191**	**- 5,864**	**688,527**
Payroll and related costs	- 55,694	- 16,743	- 18,970	- 8,153	- 38,369	9	- 137,919
Production costs	- 72,776	- 11,336	- 4,900	- 3,536	- 170	1,624	- 91,095
ICT costs	- 133,939	- 30,131	- 19,298	- 5,426	- 8,099	10,624	- 186,269
General expenses	- 25,924	- 2,479	- 941	- 2,268	- 19,979	14,179	- 37,412
Administrative expenses	**- 288,333**	**- 60,689**	**- 44,109**	**- 19,383**	**- 66,618**	**26,436**	**- 452,695**
Other net operating expenses/income	932	- 5,786	- 9,327	58	37,974	- 20,572	3,280
Net accruals for risk and charge	- 10,659	- 761	- 356	- 36	- 8	-	- 11,820
Operating costs (net of DA)	**- 298,060**	**- 67,236**	**- 53,791**	**- 19,361**	**- 28,651**	**5,864**	**- 461,236**
EBITDA	**170,943**	**23,934**	**13,222**	**8,651**	**10,541**	**-**	**227,291**
Depreciation and amortization	- 24,851	- 2,529	- 2,486	- 4,054	- 2,669	- 53	- 36,643
Operating profit	**146,092**	**21,405**	**10,735**	**4,596**	**7,871**	**- 53**	**190,648**
Depr.&Amort. (customer contract)							- 10,523
Share of gains/losses of investees							18
Non recurring/extraordinary items							- 55,291
Pre-tax profit							**124,852**
Income taxes							- 19,268
Profit to non-controlling interests							- 1,586
Net profit							**103,998**

Net interest income (expense) is the business segments' contribution to the group's net interest income resulting from the sum of realised interest income and expense recognised in the accounting system and unrealised interest calculated as part of the planning and control system, using the cash-pooling method based on internal transfer rates.

A breakdown of operating revenue arising from transactions with third party customers and other business segments of the same entity by operating segment is set out below for better disclosure purposes.

2016 INTERIM CONSOLIDATED FINANCIAL STATEMENTS: OPERATING REVENUE						
YTD Dec, 31 (€/000)	**E-money**	**Payment**	**Securities Services**	**Application outsourcing**	**Other Group activities**	**Group total**
E-money		3,623	-	677	15,224	19,524
Payments	- 2,073		-	67	-	- 2,006
Securities Services	-	-		1,137	-	1,137
Application Outsourcing	153	51	-		357	561
Other group activities	- 14,182	-	-	831		- 13,352
Operating revenue - other	**- 16,102**	**3,674**	**-**	**2,711**	**15,582**	**5,864**
Third party customers	485,106	87,497	67,013	25,301	23,610	688,527
Total operating revenue	**469,004**	**91,171**	**67,013**	**28,012**	**39,191**	**694,391**

Reconciliation between the management accounts and the consolidated financial statements

Segment reporting is consistent with the group planning and control system's principles and operating procedures defined by the central planning and control (P&C) department and approved by group management, whose aim is to ensure consistent management reporting among the various group operations and structures.

This system is based on the general criteria of tracing management data and reports to the general accounting records. Considering the characteristics of the parent, which is required to prepare consolidated financial statements, the group's management account income statement is presented with the general classification used in the financial statements of banking groups.

In order to improve management reporting of the group's operations and performance, as an exception to the above-mentioned general criteria of tracing management figures to those of the separate and consolidated financial statements, the P&C system sets out certain grouping rules for data that are dissimilar from those of the general accounts. The main differences in data grouping relate to the following:

- income classified in Other operating income/expense (caption 220 of the consolidated financial statements), relating to the provision of services (non-banking/financial) that are part of the operating segments' core business, is presented under Net fee and commission income and revenue from services in the management accounts;
- expense classified in Other operating income/expense (caption 220 of the consolidated financial statements), relating to royalties and/or selling costs, is presented under Net fee and commission income and revenue from services in the management accounts;
- income classified in Other operating income/expense (caption 220 of the consolidated financial statements), relating to the recovery of expenses, is presented in the caption to which the expense refers in the management accounts;
- income classified in Fee and commission income (caption 40 of the consolidated financial statements), relating to items subject to IFRIC 13, which establishes the accounting treatment to be applied by entities that grant awards under customer loyalty programmes relating to the purchase of goods or services and requires that the consideration for the obligation arising from granting the award be separated from sales revenue and deferred up to when the obligation with the customers is settled, is presented under Production costs in the management accounts;
- gains and losses relating to impairment losses/reversals of impairment losses on the equity portion of the AFS and HTM portfolios and classified in Net impairment losses (captions 130b and 130c of the consolidated financial statements) are presented under Gains (losses) on equity investments and AFS financial assets in the management accounts;
- profits relating to the bond portion of the AFS portfolio and classified in Profit (loss) on sale or repurchase of AFS financial assets (caption 100b of the consolidated financial statements) are presented under Profit on securities and exchange rate gains in the management accounts;
- income and expense relating to prior year items, classified in the caption that generated them in the financial statements of banks and financial companies, are presented under Other operating income (expense) in the management accounts;
- dividends collected on equity instruments included in the trading portfolio, classified in Dividends and similar income (caption 70 of the consolidated financial statements), are presented under Profits on securities and exchange rate gains in the management accounts;
- fees paid to directors and statutory auditors, classified in Personnel expense (caption 180a of the consolidated financial statements), are presented under General expenses in the management accounts;

- gains and losses relating to interest rate hedging derivatives are presented under Net interest income (expense) in the management accounts even when they do not formally meet the requirements for recognition as such and are, therefore, classified in Net trading income (expense) in the consolidated financial statements (caption 80);
- accruals relating to the remuneration of employees, classified in Net accruals to provisions for risks and charges (caption 190 of the Consolidated financial statements), are presented under Personnel expense in the management accounts;
- consolidation entries relating to dividends distributed by non-group companies that are accounted for using the equity method, classified in Dividends and similar income (caption 70 of the consolidated financial statements), are presented under Gains (losses) on equity investments and AFS financial assets in the management accounts;
- income and expense that, based on supporting evidence, relate to extraordinary and/or non-recurring events for the ICBPI Group are presented under Other items in the management accounts, even if they are classified in other captions in the general accounting system;
- other administrative expenses (caption 180b of the consolidated financial statements) are classified as expenses relating to the production of offered services, ITC service costs or general expenses and presented in the related caption of the management accounts, in order that the group companies present operating costs consistently.

The group's income statement included in the management accounts is set out below, with a reconciliation of its captions to those of the consolidated financial statements:

2016 interim consolidated financial statements				
YTD Dec, 31 (€/000)	**Management accounts**	**Reconciliation (cons. f/s-mngmt. accounts)**	**Financial statements**	**Cons. financial statements caption**
Net fee and commission income	648,043	- 237,557	410,486	60
Net interest income	36,281	695	36,976	30
Net trading/hedging income	3,676	- 4	3,672	80-90
Dividends from equity investments and AFS	527	- 411	116	70
Operating revenue	**688,527**	**- 237,277**	**451,250**	**sum**
Payroll and related costs	- 137,919	- 17,689	- 155,608	180a
Other administrative expenses	- 314,776	- 87,161	- 401,937	180b
Administrative expenses	**- 452,695**	**- 104,850**	**- 557,545**	**sum**
Other net operating expenses/income	3,280	282,154	285,434	220
Net accruals for risks and charges	- 11,820	4,381	- 7,439	130-190
Operating costs (net of DA)	**- 461,236**	**181,686**	**- 279,550**	**sum**
EBITDA	**227,291**	**- 55,591**	**171,700**	**sum**
Depreciation and amortization	- 36,643	- 10,523	- 47,166	200-210
Operating profit	**190,648**	**- 18,947**	**171,700**	**sum**
Amortization customer contract	- 10,523	10,523	-	other item
Share of gains/losses of investees	18	300	318	100-240-270
Non recurring/extraordinary items	- 55,291	55,291	-	other item
Pre-tax profit	**124,852**	**-**	**124,852**	**sum**
Income taxes	- 19,268	-	- 19,268	290
Profit to non-controlling interests	- 1,586	-	- 1,586	330
Net profit	**103,998**	**-**	**103,998**	**sum**

(€'000)

A.2 Breakdown by business segment: statement of financial position

(€'000)	E-money		Payments		Application outsourcing		Securities Services		Other group activities		Consolidation adjustments		Consolidated financial statements	
ASSETS	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Loans and receivables with banks	11,523	23,996	-	-	408	2,416	231,753	-	507,624	805,418	- 3,632	- 4,177	747,676	827,652
Loans and receivables with customers	2,385,135	2,350,791	26,132	15,170	-	-	164,114	340,988	1,389,901	2,097,295	- 1,120,752	- 1,267,347	2,844,529	3,536,898
Financial assets	47,583	189,968	-	-	-	-	11,445	13,401	3,328,010	2,642,419	-	-	3,387,038	2,845,789
Equity investments	-	-	-	-	-	-	1,250	1,250	1,626,362	519,405	- 1,617,507	- 414,238	10,105	106,417

(€'000)	E-money		Payments		Application outsourcing		Securities Services		Other group activities		Consolidation adjustments		Consolidated financial statements	
LIABILITIES	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Due to banks	1.587.659	1.877.644	-	-	-	-	70.559	80.176	1.029.648	941.324	- 1.120.752	- 1.267.347	1.567.113	1.631.798
Due to customers	30.850	28.333	826.258	804.192	-	-	5.348.106	3.552.373	53.759	166.507	- 3.632	- 4.177	6.255.341	4.547.227

KPMG

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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of Istituto Centrale delle Banche Popolari Italiane S.p.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Istituto Centrale delle Banche Popolari Italiane Group (the "group"), which comprise the statement of financial position as at 31 December 2016, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and related notes.

Directors' responsibility for the consolidated financial statements

The parent's directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 43 of Legislative decree no. 136/2015.

Independent auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and

Istituto Centrale delle Banche Popolari Italiane Group
Independent auditors' report
31 December 2016

the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the group's financial position as at 31 December 2016 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 43 of Legislative decree no. 136/2015.

Report on other legal and regulatory requirements

Opinion on the consistency of the directors' report with the consolidated financial statements

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the directors' report, which is the responsibility of the parent's directors, with the consolidated financial statements. In our opinion, the directors' report is consistent with the consolidated financial statements the Istituto Centrale delle Banche Popolari Italiane Group as at and for the year ended 31 December 2016.

Milan, 6 April 2017

KPMG S.p.A.

(signed on the original)

Roberto Fabbri
Director of Audit

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Reports and financial statements of the Parent Company

Board of Directors’ Report on Operations

Dear Shareholders,

Period 2016 closes with a net profit of Euro 84.2 million against a net profit in 2015 of Euro 62.2 million. Equity amounts to Euro 2,049.8 million against Euro 810.0 million in December 2015.

Operating revenue amounts to a total of € 271.3 million, increasing by € 14.9 million (+5.8%) compared to 2015 due to the combined effect of the drop in interest margin from € 61.3 million to € 44.0 million (-28.2%), the increase in commission and revenue from services from € 147.9 million to € 148.7 million (+0.5%) and the increase in dividend and other income from €42.4 million to € 74.3. EBITDA is € 121.6 million up 15.7% against the € 105.0 million in 2015.

GOVERNANCE STRUCTURES

Regarding the renewal process of the Institute’s governance, initiated in the wake of the change of control in the Group’s shareholding structure, refer to the section “Governance and control structures” of the Report on the Group’s operations.

It is also noted that, in compliance with the best industry practices and Supervisory provisions in order to promote an efficient system of information and consultation that allows the Parent Company Board a better evaluation of certain issues within its competence; the Strategic Committee was established during 2016, which, supported by the Financial Steering Group, performs advisory tasks in support of the Board of Directors and provides non-binding opinions on specific matters.

The Remuneration Committee was also established, which performs support tasks for the Board of Directors regarding staff remuneration.

On the other hand, the following were abolished: Supervisory Board 231, whose duties were entrusted to the Board of Auditors in December 2015, Price Committee, Market Committee, Liquidity and Finance Committee and the Industrial Steering Group.

REGULATORY COMPLIANCE

Reference is made to the corresponding section of the Report on the Group's operations.

HUMAN RESOURCES

The workforce of the Parent Company as at 31 December 2016 totalled 871 units.

	ICBPI			
	dic-15		dic-16	
	HC	FTE	HC	FTE
Managers (*)	34	34,0	35	35,0
Middle Management	381	374,3	385	378,5
Permanent Staff	452	431,3	442	420,7
Temporary Staff	16	15,3	9	9,0
Total	**883**	**854,9**	**871**	**843,2**

(*) Managers with a temporary contract included

INFORMATION ON STAFF AND THE ENVIRONMENT

Reference is made to the corresponding section of the Report on the Group's operations.

BUSINESS OUTLOOK

2016 results benefited from the contribution of the Business Units and the individual departments as set out as follows.

B.U. PAYMENTS & ATM

The definitive stabilization and consolidation of processes related to SEPA has allowed the Payments & ATM B.U. to focus its efforts on the process of "continuous quality improvement" of the services provided to its customers, with particular reference to those relating to the role of the infrastructure of payment systems and intermediary bank, and in line with the indications and guidelines that have emerged from the concomitant evolution of the Group's governance structure. The effects of these improvement activities were experienced on the efficiency improvement side of processes and on the significant reduction of the operational drawbacks with the consequent minimizing of the impact on economic losses.

The Payment Services B.U. is proactively participating in major domestic and European projects on the evolution of payment systems (Instant Payment, Mobile Payment and P2P, etc.), favoured and encouraged also by the approval of the Directive (EU) 2015/2366 of 25 November 2015 on payment services in the internal market (so-called PSD2), to be fully operational by the beginning of 2018.

The full implementation of SCT interoperability links with EBA Step2 and activation of the night-time settlement cycle, developed in collaboration with the Bank of Italy, allowed ACH ICBPI to align to the market supply and ensure full reachability in the SEPA area (BIC above 5,300 in Europe).

To date, banks/PSPs participating in ACH ICBPI total about 140 for SCT and about 120 for SDD services and SEDA. For similar activities relating to only domestic products, 195 banks participate in the ICBPI Application Centre.

The total volumes managed by the ICBPI infrastructure were of about one billion transactions in 2016, approaching, like for like, the volumes managed in the pre-SEPA period. Overall, commission revenues arising from all services managed by the BU grew by 3% in 2016, amounting to approximately EU 89.43 million.

As previously mentioned, one of the main innovation projects at European level is that of Instant Payments, in which ICBPI - in partnership with NETS - is starting the ACH for the management of “Instant” payments. The activities with the Bank of Italy Bi-Comp continue in parallel, to create the settlement phase of these payments, while talks are under way with EBA Clearing for the definition of an interoperability link.

In this context, ICBPI is participating actively in the task force set up by the European Central Bank - ERPB, the operational work groups set up by the Bank of Italy, EPC and ABI.

In 2016, ICBPI was also engaged in making the ZAC product SEPA compliant for P2P payments based on the transfer of money between two holders of a current account or card account (IBAN based). In this context, ICBPI is participating in international/domestic work groups (EPC, ABI, Berlin Group) for interoperability with other P2P systems, and is also considering further projects aimed at extending the P2P payment functionality to multiple channels, that can also be integrated with Mobile solutions already available within the group (e.g. iPhone, NFC, etc.).

The commitment to the “Check Truncation Image” project proceeds and should be fully operational in November 2017. For this new service, ICBPI will offer its customers different solutions that allow them to choose the most suitable options for their needs.

In 2016, the services dedicated to companies showed a positive increase in some categories: CBI, Electronic invoicing and paperless services, Payments for the PA on AGid (Agency for Digital Italy).

PAYMENT SERVICES

In 2016, there was an overall increase in revenues by about 3% compared to 2015, from approximately EU 86.8 million to approximately EUR 89.4 million.

Overall, the ACH infrastructure and ICBPI Application Centre managed about one billion million transactions in the period, up from the circa 840 million in the same period in the previous year with an increase in volumes by about 19%.

The volumes of the settlement services for the domestic and international standardized and competitive SEPA collection and payments increased by about 14.6% in 2016 compared to 2015, leading revenues to about EU 24.6 million, an increase of 6.3 % over the previous year.

The operational volumes of the collection and payment Services executed in material terms (Cheques, Bills etc.) were about 88.7 million in 2016, a decrease of about 6% focused on the Cheques segment. This decrease, overall, is in line with the reference interbank market trend, while Bills managed were approximately 11.2 million in 2016, a slight increase compared to 2015 (+1%).

The Bankers Drafts managed (Issued and Paid) in the period were approximately 2.5 million, a decrease of 19.4% compared to 2015.

The volumes of collections and payments made on behalf of the big ICBPI customers increased from about 73 million in 2015 to about 76.5 million in 2016 with an overall increase of 5%. Specifically, the payments of INPS pensions decreased by around 4% over the previous year while the volumes of the "Voucher INPS" grew by 24%. The payment volumes managed on behalf of AGEA and ARCEA returned to growth by about 28%, and SDD collections presented by corporate customers saw an increase in volumes of 7%.

BANK-BUSINESS SERVICES

Revenues from Digital Corporate Banking services increased overall by about 2.7% in 2016 compared to 2015 amounting to approximately EU 24.8 million.

The E-banking workstations managed in the first half of 2016 increased by 5% compared to 2015, rising from about 248,000 to over 261,000. The increase is mainly due to the gradual activation, which began in 2014, of the new Corporate Banking platform called "Innovation Banking", on which more than 147,000 customer bank workstations have already been made operational.

The CBI Node activities reported an increase in handled provisions (executive and informational) of over 15% compared to 2015, rising from 1.4 billion to circa 2.25 billion in 2016. The increase in volumes is partly attributable to the operational start-up of the new services proposed by the CBI Consortium: C-Bills and Credit Certification.

In 2016, the volumes of digital documents managed by ICBPI increased due to the new "paperless" services (signed contracts for Unione Fiduciaria) activated in 2015 and the new functions provided in the segment of the Electronic Invoicing.

It should be noted that ICBPI will provide CBI (Customer to Business Interaction Consortium) the IT services of the new CBI network infrastructure for the next three years.

SECURITIES SERVICES B.U.

In 2016, the services of the Securities Services Business Unit (Custody, administration and settlement of securities, Fund Services, Investment services) provided to Banks, Brokerage Firms (SIM), Asset Management Companies (SGR) and Funds have shown a marginal reduction in assets under management compared to a growth of transactions in securities.

Operating revenues amounted to EU 66.6 million, of which EU 5.2 million are related to net interest income and EU 3.9 million in income from securities.

In addition to strengthening the customer base on the reference market, the activities of the Securities Services BU during the year were mainly focused on:

- expansion of the range offered to customers through the fine-tuning and completion of new services that will be offered during 2017 (i.e. fund accounting and transfer agent services for AIF, administrative services in support of the individual Portfolio Management, listing of customer branded bonds on Regulated Markets and MTF, etc.).
- rethinking of the logic of pricing underlying the management of cash on deposit, in a market characterized by very low interest margins due to the fall in interest rates;
- drafting of the 2017-2021 Strategic Plan to identify the business areas on which to focus greater efforts and investments over the next few years.

GLOBAL CUSTODY

The Global Custody services, provided to more than 150 institutional clients, recorded a decline in assets under administration in 2016, against a resumption of the settlement services.

At year-end, the portfolio of securities under custody and administration amounted to about EU 123.5 billion, of which 40% are foreign securities, a decrease of 3.3% compared to 2015. A portfolio analysis highlights a switch in progress between the foreign component, an increase of 7% and domestic, down 9.2%.

The settlement activities continued the strong recovery that began last year, both for transactions on foreign markets (+1.3%) and those of Italian securities settled in T2S (+ 8.5%). Total operating volumes in this sector amounted to 3.47 million settlements in 2016 (+6.5%).

OPERATIONS SERVICES AND DEPOSITARY BANK & CONTROLS

The Depositary Bank & Controls Department continued to grow in 2016 too, recording an increase in assets under management amounting to about EU 59.5 billion (+4.8% compared to 2015), thanks to the recovery of the financial markets in the last quarter and the positive performance of the inflows in the asset management market.

In 2016, the customer pension funds of the Department were 48 (+2 compared to 2015) with total assets of around EU 23.7 billion (+10.6%), confirming ICBPI's market leadership in this segment.

The assets relating to the open-ended mutual funds were stable, now standing at about EU 31.8 billion (+0.3%), while a significant increase registered in the closed-end mutual funds, whose assets under management have now stabilized at about EU 4 billion (+10.3%).

The total portfolio of funds under administration now comprises 149 mutual funds, 22 private equity funds and 42 real estate funds.

The positive trend of customer deposits has also benefited the Fund Administration activities, now with a portfolio above EU 45 billion (+6.6%); the Transfer Agent activities currently manages more than 2.2 million subscribers (-6.9%).

BROKERAGE & PRIMARY MARKET

The sharp decline in volumes and the total value of traded securities disadvantaged the Brokerage & Primary Market Department; EU 38.6 billion, down 17.8% compared to 2015. The decrease was particularly significant in domestic equities (-26.2%) and foreign equities (-23.2%) segments, but more moderate in the fixed income segment (-7.4%).

The number of executed trades exceeded in total 1.6 million orders while the volume of the lots relative to the trading activities on derivatives exceeded 460 thousand units.

The market share in the segments managed by Italian Stock Exchange (Mta, Mot EftPlus) remained practically unchanged.

MARKET MAKING

The Market Making Department recorded income from securities of approximately EU 3.1 million in 2016, in addition to EU 0.62 million in net interest income (including the new activities in Repos) and EU 0.15 in fees for the specialist activities.

The Department, while benefiting from the start of the Brokerage Business in Repos for institutional clients in May, was hurt by the drop in volumes in the bond market which, combined with high volatility stemming both from the recent banking crises (MPS Venetian banks) and political events (Brexit, U.S.A.

election, constitutional referendum), have especially weakened the market making activities on HI-MTF, while the decline in Institutional Sales Trading on bonds was more moderate.

Competitiveness shown by HI-MTF compared to other market makers operating in the same market has remained at good levels, allowing the Department to maintain its leadership this year too with a market share that is consolidated at around 40%.

TREASURY DEPARTMENT

The Treasury Department, in line with its standard policy aimed at reducing operating, credit and market risks, operated in 2016 with the aim of optimizing the management of the securities portfolios and the liquidity arising from the performance of the standard core activities.

At the same time, the provision of services to the different structures of the Group continued regularly, in particular by financing the subsidiary company operating in the E-money sector for about € 1.11 billion daily average.

The monetary policy initiatives taken by the ECB led to the presence of the overnight rate and Eonia regularly at 0%, and a reduction of the volume traded on unsecured regulated markets. This policy resulted in increases in the average deposits on bank and customer accounts at ICBPI with the need to access the markets even for large amounts. The Quantitative Easing program put in place by the Central Bank has also led to a gradual decline in yields on European government issues.

The excess liquidity, both in Euro and in other currencies were managed in the Loans & Receivables portfolio over a period of very short period. During the year, deposits were opened in the e-MID interbank market, in the MMF market for repurchase agreements (intermediated by the CC&G) and over the counter at a maximum expiry of three months. Daily average loans recorded volumes of approximately EU 0.93 billion on the Euro segment and around EU 0.5 billion on the other currencies segment.

The Available for Sales securities portfolio, primarily composed of fixed rate national government issues and to a lesser extent floating rate securities maintained an average nominal value of EU 2.67 billion. In the first half of the year, purchases of Treasury bills and zero-coupons were made with a residual maturity of 3-6 months that resulted in a portfolio of around EU 3.0 billion nominal. The purchases were made to obtain more remunerative returns with respect to the loans with the same duration expressed by the unsecured interbank market or the repo market.

As a result of the alternation of natural maturities in the portfolio and to maintain a stable positive return on the segment, it was decided in December to buy government bonds with maturities between 2020 and 2021, bringing the position to the highest level of the year (EU 3.0 billion).

The securities portfolio, exclusively composed of national government issues has also been regularly used for refinancing transactions or brokerage in the MMF market for repurchase agreements, at higher remuneration rates compared to the ECB official rate (-0.40%) helping to increase the profitability of the segment.

The Held to Maturity portfolio, composed of securities issued by Italian banks for an annual average of EU 0.02 billion nominal, recorded a return of liquidity in 2016 resulting from the natural maturity of corporate bonds.

CREDIT

The guidelines for credit management are based on general principles of prudence, correct and accurate management and compliance with legislative and regulatory provisions currently in force.

Derivative transactions were not used for hedging credit risk.

Positions with Credit Lines have the following counterparties: 43% supervised institutions, 35% subsidiaries or companies controlled by ICBPI, 17% UCITS and SIM and only 5% relative to the companies belonging to the Corporate segment (these are almost exclusively instrumental lines of credit related to the execution of collection orders).

The following table shows the main financial statements indicators for 2016:

ICBPI - Highlights and main indicators	31/12/2016	31/12/2015	% Change
Statement of financial position highlights (€'000)			
Loans and receivables with customers	1,580,147	2,453,453	- 35.6%
Loans and receivables with banks	739,377	805,418	- 8.2%
Financial assets	3,323,522	2,624,036	26.7%
Total assets	9,759,124	6,880,317	41.8%
Direct funding from customers	6,228,123	4,523,072	37.7%
Indirect funding from customes (assets under administration)	51,660,230	48,602,651	6.3%
Equity	2,049,805	810,046	153.0%
Income statement highlights (€'000) (*)			
Net interest income	44,065	61,344	- 28.2%
Net fee and commission income and revenue from services	148,655	147,940	0.5%
Operating income	271,298	256,405	5.8%
Personnel expense	74,081	71,889	3.0%
Operating costs	149,678	151,328	- 1.1%
EBITDA	121,620	105,077	15.7%
Profit for the year	84,164	62,246	35.2%
Structural ratios (%)			
Loans and receivables with customers / Total assets	16.2%	35.7%	
Loans and receivables with banks / Total assets	7.6%	11.7%	
Financial assets / Total assets	34.1%	38.1%	
Direct funding from customers / Total assets	63.8%	65.7%	
Indirect funding from customers / Total funding from customers	89.2%	91.5%	
Profitability ratios (%)			
Profit / (equity - profit) (ROE)	4.3%	8.3%	
Net interest income / Operating income	16.2%	23.9%	
Fee and commission income and revenue from services / Operating income	54.8%	57.7%	
Operating costs / Operating income (Cost income ratio)	55.2%	59.0%	
Credit risk ratios (%)			
Net impaired loans and receivables with customers / Net loans and receivabls with customers	-	-	
Iimpairment losses on loans and receivables with customers / Gross Impaired loans and receivables with customers	81.7%	81.7%	
Total net impaired assets / Equity	-	-	
Productivity indices (€'000)			
Average number of employees (FTE)	852	853	- 0.1%
Operating income / Average number of employees	319	299	6.6%
EBITDA / Average number of employees	143	123	15.9%
Personnel expense / Average number of employees	87	84	3.2%
Capital ratios (%)			
Own funds	1,632,442	587,718	177.8%
Risk-weighted assets	2,855,997	1,869,700	52.8%
CET 1 capital / Risk-weighted assets (CET1 capital ratio)	57.0%	31.4%	
Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)	57.0%	31.4%	
Total own funds / Risk-weighted assets (Total capital ratio)	57.2%	31.4%	

(*) The economic data are noticed in the reclassified income statement included in the management report

Dear Shareholders,

The corporate events described above are reflected in the Balance Sheet and Profit & Loss Account figures highlighted below.

Statement of financial position

FINANCIAL STATEMENT HIGHLIGHTS

The balance sheet as of December 31, 2016 reflects the effects of the reverse merger with Mercury Italy S.r.l. that took place at year-end accounting and tax backdating from January 1, 2016. Accounting for this extraordinary transaction led to the recognition in the separate financial statements of ICBPI the effects of the business combination resulting from the acquisition of the Group by Mercury Italy S.r.l.. Therefore, the comparative balance sheet items are not comparable.

ASSETS (€'000)	31/12/2016	31/12/2015
Financial assets held for trading	13.2	18.7
Available-for-sale financial assets	3,310.3	2,605.3
Held-to-maturity investments	15.9	31.8
Loans and receivables with banks	739.4	805.4
Loans and receivables with customers	1,580.1	2,453.5
Equity investments	1,611.4	520.7
Non-current assets	392.8	160.8
Other assets	2,096.0	284.2
Total assets	**9,759.1**	**6,880.3**

LIABILITIES (€'000)	31/12/2016	31/12/2015
Due to banks	1,100.2	1,021.5
Due to customers	6,228.1	4,523.1
Other liabilities	346.0	490.6
Post-employment benefits	11.4	12.1
Provisions	23.6	22.9
Equity	1,965.6	747.8
Profit for the Period	84.2	62.2
Total liabilities	**9,759.1**	**6,880.3**

At December 31, 2016, the bank's is total assets are € 9,759.1 million compared to € 6,880.3 million at the end of the previous year.

A glance at the various asset captions shows that:

- **Financial assets held for trading** amount to € 13.2 million against € 18.7 million at 31 December 2015;
- **Available-for-sale financial assets** come to € 3,310.3 million compared to € 2,605.3 million at the end of 2015, mainly consisting of government bonds. The increase is mainly a result of new acquisitions of government bonds and the transfer from the Equity investments of Equens shares;
- **Held-to-maturity investments** amount to € 15.9 million and comprise bank bonds (31 December 2015: € 31.8 million). The reduction is mainly a result of redemption of certain bonds that reached maturity;
- **Loans and receivables with banks** amount to € 739.4 million compared to € 805.4 million at the previous reporting date. The reduction is principally due to the lower deposits and joint accounts with banks at the reporting date;
- **Loans and receivables with customers** amount from € 1,580.1 million compared to € 2,453.5 million at 31 December 2015. The decrease is due to lower deposits and joint accounts with customers and to the reduction of reverse repos in place with customers at the reporting date;
- **Equity investments** come to € 1,611.4 million compared to € 520.7 million at the previous year-end. The increase relates mainly to the effects of the reverse merger, which resulted in the allocation of the purchase price of the Group's shareholdings. This item also is impacted by acquisition of CartaSi shares for € 25.3 million and the decrease due to the transfer of Equens shares to the Available for sale financial assets;
- **Non-current assets** amount to € 392.8 million against € 160.8 million at 31 December 2015. The increase is due mainly to the effects of the reverse merger with Mercury Italy S.r.l. that led to the entry of a new goodwill equal to € 246.7 in addition to positive net revaluation of property;
- **Other assets** of € 2,096.0 million (31 December 2015: € 284.2 million) include cash and cash equivalents of € 1,798.8 million, deferred tax assets of € 57.0 million, and other assets of € 240.2 million. The increase mainly refers to the greater liquidity deposited with central banks.

With respect to liabilities:

- **Due to banks** amounts to € 1,100.2 million compared to € 1,021.5 million at 31 December 2015;

- **Due to customers** comes to € 6,228.1 million against € 4,523.1 million at the previous year-end. The increase is mostly due to the higher volume of funding from customers compared to 31 December 2015;
- **Other liabilities** amount to € 346.0 million compared to € 490.6 million at 31 December 2015 and include financial liabilities held for trading of € 8.1 million, tax liabilities of € 30.3 million and other liabilities of € 307.6 million. The decrease is attributable to the lower amounts in suspense accounts at 31 December 2016, relating to the execution of payment orders;
- **Post-employment benefits** total € 11.4 million compared to € 12.1 million at the end of 2015;
- **Provisions** amount to € 23.6 million against € 22.9 million at 31 December 2015;
- **Equity** totals € 1,965.6 million compared to € 747.8 million at the previous year-end. The variation is the result of the € 28.1 million decrease in reserves due to allocation of the 2015 profit, surplus of its extraordinary merger operation with Mercury Italy S.r.l. for € 1,252.4 million and the € 6.5 million decrease in the fair value reserve.

Income statement

The December 31st 2016 figures are compared to same period last year in the following table.

The economic effects related to the reverse merger of Mercury Italy S.r.l. were allocated in specific items under the EBITDA.

ICBPI reported an EBITDA of € 121,620 million compared to to € 105,077 million at 31 December 2015 (+15.7%) and a profit of € 84,164 million (2015: € 62,246 million).

ICBPI S.p.A. - Income statement			
YTD Dec, 31 (€/000)	**2016 Year**	**2015 Year**	**% change**
Net fee and commission income	148,655	147,940	0,5%
Net interest income	44,065	61,344	- 28,2%
Net trading/hedging income	4,236	4,700	- 9,9%
Dividends from equity investments and AFS	74,342	42,419	75,3%
Operating revenue	**271,298**	**256,405**	**5,8%**
Payroll and related costs	- 74,081	- 71,889	3,0%
Production costs	- 16,406	- 17,492	- 6,2%
ICT costs	- 57,529	- 59,575	- 3,4%
General expenses	- 23,400	- 25,432	- 8,0%
Administrative expenses	**- 171,415**	**- 174,389**	**- 1,7%**
Other net operating expenses/income	22,862	23,816	- 4,0%
Net accruals for risks and charges	- 1,125	- 755	48,9%
Operating costs (net of DA)	**- 149,678**	**- 151,328**	**- 1,1%**
EBITDA	**121,620**	**105,077**	**15,7%**
Depreciation and amortization	- 7,685	- 6,643	15,7%
Depr.&Amort. (customer contract)	- 9,684	- 9,684	-
Share of gains/losses of investees	- 415	6	- 7,152,1%
Non recurring/extraordinary items	- 40,923	- 16,353	150,2%
Income taxes	21,251	- 10,156	- 309,2%
Net profit	**84,164**	**62,246**	**35,2%**

With respect to the **operating revenue**:

- **Net fee and commission income** amount to € 148,655 million, up on the same period of previous year figure of € 147,940 million (+0.5%);
- **Net interest income** come to € 44,065 million for 2016 decreased from € 61,344 million for 2015 (-28.2%);
- **Net trading/hedging income** amounts to € 4,236 million compared to € 4,700 million on same period last year (-9.9%);
- **Dividends from equity investment and AFS** amounts to € 74,342 million compared to € 42,419 million on same period last year (+75.3%);

With respect to the **Operating costs**:

- **Payroll and related costs** amounts to € 74,081 million compared to € 71,889 million for 2015 (+3.0%);
- **Production costs** come to € 16,406 million against € 17,492 million of the same period of last year (-6.2%);
- **ICT costs** amounts to € 57,529 million decreased from € 59,575 million for the previous year (-3.4%);
- **General expenses** amount to € 23,400 million decreased from € 25,432 million of the same period of last year (-8.0%);
- **Other net operating expenses/income**, net amounts to € 22,862 million compared to € 23,816 million for 2015 (-4.0%);
- **Net accruals for risk and charge** amounts to € 1,125 million against € 0,755 million for 2015 (+48.9%);

Operating costs thus come to € 149,678 million compared to € 151,328 million for the same period of last year (-1.1%).

EBITDA thus total € 121,620 million compared to € 105,077 million for 2015 (+15.7%).

- **Depreciation and amortization** decreased to € 7,685 million increased to € 6,643 million for 2015;
- **Amortisation** of € 9,684 million of depository services customer contracts;
- **Share of losses** of investees for € 0,415 million.

The following other negative non-recurring components amount to € 40,923 million including:

- cost for the National Resolution Fund € 4,328 million;
- restructuring costs of € 11,608 million;

- cost for the Group's transformation/evolution € 22,139 million;
- losses of investees of € 2,212 million;
- other negative items of € 0,636 million.

These components led to a pre-tax profit of € 62,913 million.

Income taxes are positive for € 21,251 million principally due to the ACE effect of the reverse merger with Mercury Italy S.r.l..

Profit for the period amounts to € 84,164 million.

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Information is provided below on the business continuity of the Parent Company as well as on financial risks, impairment tests of assets and uncertainties in the use of estimates.

BUSINESS CONTINUITY

Given the following indicators pertaining to the Parent Company:

Financial indicators

- there was no situation involving a capital deficit or net negative working capital;
- there were no loans with fixed or upcoming expiration dates without positive prospects of renewal or reimbursement; there is not an excessive dependency on short-term loans to finance long-term activities;
- there are no indications of cessation of financial support from financing entities and other creditors;
- there are no past or pro-forma financial statements reporting negative cash flows;
- the primary economic-financial indices are not negative;
- there were no significant operational losses or significant impairments of assets generating cash flows;
- there was no omission or discontinuity in the distribution of dividends;
- the capacity to pay debts on expiration dates exists;
- the capacity to comply with the contractual clauses of loans exist.

Management indicators

- there was no situation involving a capital deficit or net negative working capital;

- there were no loans with fixed or upcoming expiration dates without positive prospects of renewal or reimbursement;
- there is not an excessive dependency on short-term loans to finance long-term activities.

Other indicators

- there were no share capital decreases below legal limits or which were not in compliance with other legal norms;
- there were no legal and fiscal disputes which, in the case of a loss, could result in obligations of reimbursement that the companies of the Group are not capable of respecting;
- there were no legislative changes or government policies which could result in unfavourable effects to the companies of the Group.

The Directors confirm the reasonable expectations that the Group will continue its operations in the near future and that, as a result, the financial statements for the year 2016 have been drafted from the perspective of business continuity. As a result, they have not noticed symptoms within the assets and financial structure and in the operational situation trends that could constitute cause for uncertainty business continuity.

IMPAIRMENT OF ASSETS

It should be noted that the Explanatory Notes report the information requested by the joint document in relation to the process of evaluation of the assets subject to a potential impairment (impairment test) and relative to base assumptions, methodologies and utilized parameters.

In addition, and in relation to disclosure, the Explanatory Notes again report fundamental information on the following elements:

- Definition of cash generating units (CGU);
- Allocation of goodwill to each CGU;
- Illustration of the criterion used to estimate the recoverable value when the latter is based on value in use;
- Illustration of the criterion used to estimate the recoverable value when the latter is based on the fair value;
- Description of the sensitivity analysis of the impairment test results with respect to changes in the underlying assumptions;
- Remarks on the potential presence of external indicators of impairment and in the absence of write-downs of assets following the impairment procedure.

INFORMATION ON FINANCIAL RISKS

Information on the nature and extent of financial risks to which the institution is exposed is provided below.

CREDIT RISK

ICBPI is a so-called "second level" bank; the issue of credit is not the primary business objective but is instrumental and closely connected to the supply of products/services and specific treasury activities (managed through the granting of operational limits) as well as those of the Securities Services B.U. (mostly managed through the granting of overdraft credit lines within bank accounts).

The methods for measuring credit risk undertaken and the relative control process have a streamlined and simple character because of the limited amount of credit exposure. Specific organizational norms for assigning loans and periodical reviews of the latter have been adopted: these positions are examined by the Credit Committee and authorized by the Board of Directors.

MARKET RISK

The market risk to which ICBPI is exposed is extremely low given that the securities portfolio is almost entirely related to the "banking book" (AFS and HTM portfolios), and thereby does not generate market risk. The HFT portfolio relative to the "trading book" only contains the securities relative to Market Making services (for which the countervalue limit and VaR remain very low) and Financial Brokerage (for which the end of day position is closed, without prejudice to positions of the error account).

Even exposure to exchange rate risk is very low given that every operation in foreign currency which generates a position exposed to exchange rate risk is typically "hedged" by executing an offsetting operation on the market; the maintenance of positions subject to exchange rate risk is permitted only within certain limits (always extensively complied with) of maximum total exposure for each currency and VaR.

LIQUIDITY RISK AND CASH FLOW FLUCTUATION RISKS

The core activities of ICBPI typically contribute towards generating liquidity on demand. During the course of the year, the liquidity is primarily used to finance the requirements of the Companies of the Group which issue e-money services (CartaSi mainly).

Liquidity needs are satisfied by recourse to the interbank deposits market of repurchase agreements and through the use of part of the securities present within the portfolio by using operations with a duration of less than a month.

The Securities Portfolio is characterized by the presence of government securities and (to a residual extent) bank bonds that are primarily utilized as guarantees to hold in order to operate on clearing systems and to proceed with the market collection of repurchase agreements.

Any potential liquidity is utilized within interbank deposits or repurchase agreements with a duration of not more than three months. The structure of the cash flows used with different maturities and amounts allows for the limitation of liquidity risk with a balanced return of current positions.

Supervisory reports of the liquidity indicator - Basel 3 LCR, provided on a monthly basis – highlighted a constant compliance with the regulatory limit proposed for normal operations (> 100%).

INTEREST RATE RISK

Interest rate risk, managed in a centralized manner by ICBPI for the entire banking Group, is not negligible due to the temporal mismatch between assets and liabilities. In particular, risk-weighted assets – of which the relevant ones include securities present in the banking book (AFS and HTM portfolio), mostly with fixed rates although with rather close maturities (almost all within five years) – are more prevalent than weighted liabilities amongst which the greatest incidence pertains to balances of negative bank accounts. During the course of the year, risk monitoring reported a slight increase, primarily due to the increase in the duration of the securities portfolio as a result of the replacement of expiring securities with fixed rate securities with a duration between three and five years, and despite constant compliance with thresholds established by internal and regulatory norms.

2017 is expected to show economic and financial trends in line with 2016.

SIGNIFICANT EVENTS AFTER THE END OF THE YEAR

Significant events after 2016 year-end have been reported in the relevant section of the Report on Group's operations.

OTHER INFORMATION

It is noted that Institute is not subject to management and coordination by another company or body, in accordance with the provisions of articles 2497-sexties and 2497-septies of the Italian Civil Code.

It is noted that ICBPI did not undertake any research and development activities in 2016.

In the respective sections of its website (www.icbpi.it), the Institute has published, with the 2015 Financial Statements, "State by state information to the public", and "Information for the public from entities in compliance with (EU) Regulation 575/2013", as set forth in Circular 285, and subsequent amendments, published by Bank of Italy on 17 December 2013.

It is pointed out that the gender quota on the ICBPI Board of Directors is ensured in accordance with Art. 15 paragraph 1 of the Bylaws and the applicable regulatory provisions.

TREASURY SHARES

It is noted that there was no treasury share trading activity during the period.

Consequently, the ICBPI portfolio currently has 75,191 treasury shares with a par value of Euro 3.00 each, with a non-distributable reserve of Euro 32,196.

ALLOCATION OF THE PROFIT FOR THE YEAR

Dear shareholders,

The financial statements presented for your examination and approval show a profit for the year of € 84,163,727.

We propose the allocation to share holders of an amount up to that of the consolidated net profit as at 31 december 2016 equal to € 103,998 million.

We therefore propose that a dividend of € 7.33 be distributed for each of the 14,185,790 shares using the profit for the year and the available reserves as follows:

- Available reserve	€ 19,818,114
- profit for the year	€ 84,163,727
Total	**€ 103,981,841**

Milan, 21 March 2017

The Board of Directors

Financial Statements
at 31 December 2016

STATEMENT OF FINANCIAL POSITION

	ASSETS	31/12/2016		31/12/2015	
10.	Cash and cash equivalents		**1,798,761,383**		**22,366,248**
20.	Financial assets held for trading		**13,192,948**		**18,739,435**
40.	Available-for-sale financial assets		**3,310,329,090**		**2,605,296,550**
50.	Held-to-maturity investments		**15,933,025**		**31,784,286**
60.	Loans and receivables with banks		**739,377,342**		**805,417,983**
70.	Loans and receivables with customers		**1,580,146,508**		**2,453,453,152**
100.	Equity investments		**1,611,378,764**		**520,655,048**
110.	Property, equipment and investment property		**79,420,818**		**77,511,583**
120.	Intangible assets		**313,380,402**		**83,295,478**
	goodwill	246,663,237		14,941,150	
130.	Tax assets		**57,040,754**		**39,924,140**
	a) current	22,494,731		8,657,817	
	b) deferred	34,546,023		31,266,323	
	including convertible into tax assets (Law no. 214/2011)	27,901,043		27,183,763	
150.	Other assets		**240,162,964**		**221,872,643**
	Total assets		**9,759,123,998**		**6,880,316,546**

(Euro)

	LIABILITIES	31/12/2016		31/12/2015	
10.	Due to banks		**1,100,206,560**		**1,021,500,220**
20.	Due to customers		**6,228,122,934**		**4,523,072,275**
40.	Financial liabilities held for trading		**8,066,965**		**4,906,529**
80.	Tax liabilities		**30,312,954**		**29,749,326**
	a) current	-		-	
	b) deferred	30,312,954		29,749,326	
100.	Other liabilities		**307,625,558**		**455,983,796**
110.	Post-employment benefits		**11,422,388**		**12,148,762**
120.	Provisions for risks and charges		**23,560,710**		**22,909,107**
	a) pension and similar obligations	940,187		978,074	
	b) other provisions	22,620,523		21,931,033	
130.	Valuation reserves		**62,562,177**		**69,019,893**
160.	Reserves		**1,712,312,679**		**488,012,973**
170.	Share premium		**148,242,172**		**148,242,172**
180.	Share capital		**42,557,370**		**42,557,370**
190.	Treasury shares (-)		**-32,196**		**-32,196**
200.	Profit for the year (+/-)		**84,163,727**		**62,246,319**
	Total liabilities and equity		**9,759,123,998**		**6,880,316,546**

(Euro)

INCOME STATEMENT

	INCOME STATEMENT	2016		2015	
10.	Interest and similar income		**54,890,194**		**64,817,739**
20.	Interest and similar expense		**-10,875,612**		**-3,400,263**
30.	Net interest income		**44,014,582**		**61,417,476**
40.	Fee and commission income		**133,448,191**		**132,817,563**
50.	Fee and commission expense		**-34,035,511**		**-34,688,687**
60.	Net fee and commission income		**99,412,680**		**98,128,876**
70.	Dividends and similar income		**95,965,672**		**42,431,013**
80.	Net trading income		**4,232,046**		**4,688,652**
120.	Total income		**243,624,980**		**206,666,017**
130.	Net impairment losses on:		**-2,212,077**		**-4,704,650**
	b) available-for-sale financial assets	-2,212,077		-226,744	
	c)Held-to-maturity investments	-		-4,477,906	
140.	Net financial income		**241,412,903**		**201,961,367**
150.	Administrative expenses:		**-210,167,630**		**-182,567,119**
	a) personnel expense	-87,167,981		-73,904,908	
	b) other administrative expenses	-122,999,649		-108,662,211	
160.	Net accruals to provisions for risks and charges		**-1,518,753**		**-1,074,098**
170.	Depreciation and net impairment losses on property, equipment and investment property		**-2,216,596**		**-2,239,990**
180.	Amortisation and net impairment losses on intangible assets		**-15,152,774**		**-14,087,122**
190.	Other operating income, net		**72,590,499**		**70,403,370**
200.	Operating costs		**-156,465,254**		**-129,564,959**
210.	Share of profits (losses) of investees		**-22,034,742**		**-**
240.	Net gains (losses) on sales of investments		**25**		**5,880**
250.	Pre-tax profit from continuing operations		**62,912,932**		**72,402,288**
260.	Income taxes		**21,250,795**		**-10,155,969**
270.	Post-tax profit from continuing operations		**84,163,727**		**62,246,319**
290.	Profit for the period		**84,163,727**		**62,246,319**

(Euro)

STATEMENT OF COMPREHENSIVE INCOME

		2016	2015
10.	Profit for the year	84,163,727	62,246,319
Items, net of tax, that will not be reclassified subsequently to profit or loss			
40.	Defined benefit plans	328,638	270,430
Items, net of tax, that will be reclassified subsequently to profit or loss			
100.	Available-for-sale financial assets	(6,786,353)	(7,490,957)
130.	**Other comprehensive expense**	(6,457,715)	(7,220,527)
140.	**Comprehensive income (captions 10 + 130)**	77,706,012	55,025,792

(Euro)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Balance at 31.12.2014	Change to opening balances	Balance at 1.01.2015	Allocation of prior year profit: Reserves	Allocation of prior year profit: Dividends and other allocations	Changes for the year: Changes in reserves	Changes for the year – Equity transactions: Issue of new shares	Changes for the year – Equity transactions: Repurchase of treasury shares	Changes for the year – Equity transactions: Extraordinary dividend distribution	Changes for the year – Equity transactions: Change in equity instruments	Changes for the year – Equity transactions: Derivatives on treasury shares	Changes for the year – Equity transactions: *Stock options*	Changes for the year: 2015 comprehensive income	Equity at 31.12.2015
Share capital:														
a) ordinary shares	42,557		42,557											42,557
b) other shares														
Share premium	148,242		148,242											148,242
Reserves:														
a) income-related	416,284		416,284	60,881										477,165
b) other	10,848		10,848											10,848
Valuation reserves	76,240		76,240										-7,220	69,021
Equity instruments														
Treasury shares	-32		-32											-32
Profit for the year	77,904		77,904	-60,881	-17,023								62,246	62,246
Equity	772,043		772,043		-17,023								55,026	810,047

(€'000)

STATEMENT OF CHANGES IN EQUITY FOR 31 DECEMBER 2016

	Balance at 31.12.2015	Change to opening balances	Balance at 1.01.2016	Allocation of prior year profit: Reserves	Allocation of prior year profit: Dividends and other allocations	Changes for the year: Changes in reserves	Equity transactions: Issue of new shares	Equity transactions: Repurchase of treasury shares	Equity transactions: Extraordinary dividend distribution	Equity transactions: Change in equity instruments	Equity transactions: Derivatives on treasury shares	Equity transactions: *Stock options*	2016 comprehensive income	Equity at 31.12.2016
Share capital:														
a) ordinary shares	42,557		42,557											42,557
b) other shares	-		-		-	-	-	-	-	-	-	-	-	-
Share premium	148,242		148,242											148,242
Reserves:														
a) income-related	477,165		477,165		-28,117	1,252,417								449,048
b) other	10,848		10,848											10,848
Valuation reserves	69,020	-	69,020	-	-	-	-	-	-	-	-	-	-6,458	62,562
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-32	-	-32	-	-	-	-	-	-	-	-	-	-	-32
Profit for the year	62,246	-	62,246	-	-62,246	-	-	-	-	-	-	-	84,164	84,164
Equity	810,046	-	810,046	-	-90,363	1,252,417	-	-	-	-	-	-	77,706	2,049,806

(€'000)

STATEMENT OF CASH FLOWS: INDIRECT METHOD

A. OPERATING ACTIVITIES	2016	2015
1. Operations	**-10,665**	**41,034**
- profit for the year (+/-)	84,164	62,246
- net gains (losses) on financial assets held for trading and financial assets/liabilities at fair value through profit or loss (-/+)	37	55
- hedging gains/losses (-/+)		
- net impairment losses (+/-)	2,212	4,705
- net impairment losses on property. equipment and investment property and intangible assets (+/-)	17,369	16,327
- net accruals to provisions for risks and charges and other costs/revenue (+/-)	1,519	1,074
- unpaid taxes and duties (+)	-21,251	-692
- net impairment losses on disposal groups. net of the tax effect (+/-)		
- other adjustments (+/-)	-94,716	-42,681
2. Cash flows generated by financial assets	**341,590**	**90,017**
- financial assets held for trading	5,509	787
- available-for-sale financial assets	-615,642	-72,652
- loans and receivables with banks: on demand	66,075	-219,776
- loans and receivables with banks: other		
- loans and receivables with customers	864,537	391,788
- other assets	21,111	-10,130
3. Cash flows used by financial liabilities	**1,382,387**	**-109,389**
- due to banks: on demand	78,706	-967,262
- due to banks: other		
- due to customers	1,705,051	1,442,380
- securities issued		
- financial liabilities held for trading	3,160	-1,257
- financial liabilities at fair value through profit or loss		
- other liabilities	-404,531	-583,250
Net cash flows generated by (used in) operating activities	**1,713,311**	**21,662**
B. INVESTING ACTIVITIES		
1. Cash flows generated by		
- sales of equity investments		
- dividends from equity investments	95,966	42,431
- sales/repayments of HTM investments	16,000	10,000
- sales of property. equipment and investment property		25
- sales of intangible assets		
- sales of business units		
2. Cash flows used to		
- equity investments	-25,304	**-29,819**
- HTM investments		
- property. equipment and investment property	-615	-
- intangible assets	-13,516	-5,428
- business units		
Net cash flows generated by investing activities	**72,531**	**17,209**
C. FINANCING ACTIVITIES		
- issue/repurchase of treasury shares		
- issue/purchase of equity instruments		
- dividend and other distributions	-9,448	-17,023
Net cash flows used in financing activities	**-9,448**	**-17,023**
NET CASH FLOWS FOR THE YEAR	**1,776,395**	**21,848**
RECONCILIATION		
Financial statements captions		
Opening cash and cash equivalents	22,366	518
Net cash flows for the year	1,776,395	21,848
Cash and cash equivalents: effect of changes in exchange rates		
Closing cash and cash equivalents	**1,798,761**	**22,366**

(€'000) *KEY:* *(+) generated* *(-) used*

Notes of the financial statements

Part A - ACCOUNTING POLICIES

A.1 - GENERAL PART

Section 1 – Statement of compliance

PPursuant to Regulation (EC) no. 1606 of 19 July 2002, Istituto Centrale delle Banche Popolari Italiane (the bank or ICBPI) has prepared these separate financial statements as at and for the year ended 31 December 2015 in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission. They were introduced into Italian law with Legislative decree no. 38/2005.

The bank applied the IFRS enacted at 31 December 2016 and Bank of Italy's instructions about financial statements issued in its Measure of 22 December 2005, the related Circular no. 262 and subsequent amendments.

It did not make any departures from the IFRS.

Section 2 – Basis of presentation

The separate financial statements at 31 December 2016 comprise a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and these notes. They are accompanied by a directors' report which comments on the bank's performance, its results of operations and financial position.

The bank's presentation currency is the Euro and the amounts shown in the separate financial statements and these notes are in thousands of Euros.

The bank has applied the recognition and measurement criteria established by the IFRS endorsed by the European Commission and the general assumptions in the Framework for the preparation and presentation of financial statements issued by the IASB.

The following paragraphs illustrate the amendments made to several accounting standards issued by the IASB and validated by the European Commission, which were applicable on a mandatory basis from FY 2016:

- Regulation no. 2343 of 15 December 2015 – "Annual Improvements - 2012-2014 Cycle" (IFRS 5, IFRS 7 and IAS 19, IAS 34) and Regulation no. 28/2015 of 17 December 2014 – "Annual Improvements - 2010-2012 Cycle" (IFRS 2, IFRS 3, IFRS 8 and IAS 16, IAS 24). The amendments introduced provide several clarifications that seek to resolve some inconsistencies or illustrate methods.
- Regulation no. 29/2015 of 17 December 2014 – IAS 19 "Employee Benefits". The aim of the amendment is to clarify, also by means of application guidelines, how the contributions provided by employees or by third parties should be recorded in the accounts, based on the distinction as to whether or not they are envisaged in the formal conditions of defined benefit plans, and whether or not they are related to the number of years in service.

- Regulation no. 2173 of 24 November 2015 - IFRS 11 “Joint Arrangements”. The changes to standard IFRS 11 establish the accounting principles for the acquisition of a “Joint Operation” that represents a business activity, pursuant to IFRS 3.
- Regulation no. 2231 of 2 December 2015 – IAS 16 “Property, plant and equipment”, IAS 38 “Intangible assets”. Clarifications are provided on the depreciation and amortisation methods considered acceptable. More specifically, it is established that a depreciation/amortisation approach based on the revenues generated by a business activity that reflects the use of a tangible or intangible asset is not appropriate, insofar as said revenues generally reflect other factors beyond the use of the economic benefits of the asset.
- Regulation no. 2441 of 18 December 2015 – IAS 27 “Separate financial statements”. The option is introduced to apply the equity method, illustrated in IAS 28 “Investments in Associates and Joint Ventures”, to the separate financial statements to record investments in associates and joint ventures, in addition to the current cost or fair value options.
- Regulation no. 2406 of 18 December 2015 – IAS 1 “Presentation of Financial Statements”. The amendment, entitled “Disclosure initiative” seeks to improve the effectiveness of financial statement disclosures, by encouraging the application of professional judgement to decide what information to disclose, in terms of materiality and means of aggregation.
- Regulation n. 2016/1703 of 22 September 2016 - Amendments to IFRS 10, 12 e IAS 28 “Investment Entities–Applying the Consolidation Exception”. The amendments are designed to clarify the requirement for investment entities to measure subsidiaries at fair value instead of consolidating them.

The application of the above-illustrated amendments did not have any significant impact on the Financial Statements.

The following table shows the new standards or amendments with the related endorsement regulations. Their application is mandatory from 1 January 2017 (for entities whose reporting period is the calendar year) or subsequently.

Endorsement regulation	Name	Standard/Interpretation	Year of application
2016/2067	IFRS 9	Financial Instruments	2018
2016/1905	IFRS 15	Revenue from contracts with customers	2018

With reference to IFRS 9, ICBPI Group, over the course of the last quarter 2016, has launched projects in order to identify the main areas impacted and to establish the reference method framework for the classification, measurement and impairment of financial assets. More specifically:

- Classification and Measurement: the reference Business Models are going to be established and has been conducted an analyses of the stock of financial assets that do not envisage any significant impact from reclassification with respect to the current Accounting Standard IAS 39; in particular, given the reference business models, the trading portfolio will not suffer any substantial changes. The financial assets available for sale (AFS), may have to be measured at fair value and be transferred to the income statement given the fact that several financial assets in the above-cited portfolio, based on their characteristics, do not pass the so-called "Solely Payment of Principal and Interest" test (SPPI test). The Loans and Receivables Portfolio should not be reclassified;

- Impairment: given the characteristic of the loan portfolio, that mainly include current account related to the payment and security services provided of the bank, we do not expect any significant impacts.

Lastly, the amendment related to Hedge accounting and the accounting treatment of "own credit risk" will not have any impact because this cases are not present.

With reference to IFRS 15, they are being analyzed potential impacts and based on the results of the checks carried out to date, they should be irrelevant.

The next table shows the standards for which amendments were issued, specifying the scope of or object for such amendments.

Standards	Name	Publication date
IFRS 14	Regulatory Deferral Accounts	30/01/2014
IFRS 16	Leases	13/01/2016
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	11/09/2014

As none of them have been endorsed by the European Commission, they did not affect the bank's 2016 separate financial statements.

The bank applies the measurement criteria assuming that it will continue as a going concern and in accordance with the principles of accruals, materiality and significance of the financial data and the principle of substance over form.

The separate financial statements and the notes present corresponding prior year figures.

The directors' report and these notes include all the information required by the IFRS, the law and Bank of Italy, as well as additional disclosures which are not mandatory but are deemed useful to give a true and fair view of the bank's separate financial statements.

Basis of presentation of the separate financial statements

Statement of financial position, income statement and statement of comprehensive income

They comprise captions, subcaptions and additional information. Revenue is shown without a plus sign while costs are shown with a minus sign in the income statement.

Statement of changes in equity

This statement shows changes in equity during the year split between share capital, equity-related reserves, income-related reserves, valuation reserves and the profit (loss) for the year. Treasury shares are offset against equity. The bank has not issued equity instruments other than ordinary shares.

Statement of cash flows

The statement of cash flows for the year and the previous year has been prepared using the indirect method, whereby cash flows from operations are the profit for the year adjusted by the effects of non-monetary transactions.

Cash flows are split between those from operating, investing and financing activities.

Cash flows generated during the reporting period are indicated without a plus sign while those used during the reporting period are shown with a minus sign.

Basis of presentation of the notes

These notes include the information required by Bank of Italy's Circular no. 262/2005 and the additional information required by the IFRS.

The accounting policies described below have been adopted to disclose all the information in the separate financial statements.

Section 3 - Events after the reporting period

No events took place after the reporting date that would have had a significant effect on the bank's financial position, results of operations or cash flows or that would have required adjustments to the financial statements captions.

Section 4 - Other aspects

There is no other information that needs to be disclosed, including with respect to the Bank of Italy/Consob/IVASS document no. 6 of 8 March 2013.

A.2 - KEY FINANCIAL STATEMENTS CAPTIONS AT 31 DECEMBER 2015

1 - Financial assets held for trading

Classification:

A financial asset is classified as held for trading if it is:

- acquired principally for the purpose of selling it in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for a derivative that is an effective hedging instrument).

Derivatives are recognised under assets when they have a positive fair value and under liabilities when they have a negative fair value.

Recognition

Debt and equity instruments are recognised at their settlement date while derivatives are recognised at their trading date.

Financial assets held for trading are initially recognised at fair value, which is usually the transaction price, net of any directly attributable transaction costs.

Measurement

After initial recognition, financial assets held for trading are measured at fair value. Any resulting fair value gains or losses are recognised in caption 80 “Trading income (expense)” of the income statement. Interest accrued on these assets is recognised in caption 10 of the income statement “Interest and similar income”, although interest and/or other income and expense on trading derivatives are recognised in caption 80 “Trading income (expense)” of the income statement.

Section 17 - Other information provides information on the calculation of fair value of listed financial instruments. Equity instruments and derivatives hedging equity instruments are maintained at cost when it is not possible to calculate their fair value reliably.

Derecognition

Financial assets or parts of financial assets are derecognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

2 - Available-for-sale financial assets

Classification

This category includes non-derivative financial assets that are not classified as loans and receivables, financial assets held for trading, held-to-maturity investments or financial assets at fair value through profit or loss.

Recognition

They are initially recognised at the settlement date and measured at fair value, which includes the directly related transaction costs.

Measurement

AFS financial assets are subsequently measured at fair value with recognition of amortised cost in profit or loss and the fair value gains or losses in a specific equity reserve until the asset is derecognised or an impairment loss is recognised. Gains or losses recognised in equity are reclassified to profit or loss when the asset is sold.

Realised gains or losses are recognised in caption 100 “Net profit (loss) on sale or repurchase” of the income statement.

Fair value is calculated using the same criteria applied to financial assets held for trading.

Equity instruments included in this category and derivatives hedging equity instruments are maintained at cost when it is not possible to calculate their fair value reliably.

The bank tests its assets for impairment at each reporting date. When there is a significant or prolonged decline in fair value, ICBPI recognises it in profit or loss as the difference between the asset’s carrying amount (acquisition cost net of impairment losses already recognised in profit or loss) and fair value. Fair value losses are significant when they exceed 20% of the cost and prolonged if they have existed for over nine months.

If the fair value of a debt instrument increases in a subsequent period and this increase is objectively due to an event that took place in a period after that in which the impairment loss was recognised in profit or loss, the impairment loss is reversed and the related amount is recognised in the same income statement caption. The reversal may not generate a carrying amount higher than that which would have been obtained by measuring that asset at amortised cost had the loss not been recognised. Impairment losses on shares, recognised in profit or loss, cannot be reversed through profit or loss but only directly through equity.

Derecognition

Financial assets or parts of financial assets are derecognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

3. Held-to-maturity investments

Classification

This category includes debt instruments with fixed or determinable payments and fixed maturities that the bank has the ability and intention to hold to maturity. If it is no longer appropriate to maintain an asset as classified as held to maturity following a change in the bank's intentions or ability, it is reclassified to "AFS financial assets".

Recognition

HTM investments are initially recognised at cost, being the fair value of the amount traded, including any directly related costs and income.

Measurement

After initial recognition, HTM investments are measured at amortised cost using the effective interest method. Fair value gains or losses are recognised in profit or loss when the investments are derecognised.

At each reporting date, the bank tests the HTM investments for impairment. The impairment loss, if any, is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate.

Impairment losses are recognised in profit or loss. When the reasons for impairment are no longer valid as a result of an event that took place subsequent to recognition of the impairment loss, it is reversed through profit or loss.

Derecognition

Financial assets or parts of financial assets are derecognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

4 - Loans and receivables

Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

This category includes trade receivables and reverse repurchase agreements.

Recognition

Loans and receivables are initially recognised at the agreement signing date, which is usually the disbursement date, based on the financial instrument's fair value, which usually equals the amount disbursed including transaction costs or revenue attributable to the individual loan or receivable and determinable from the transaction start date, even when they are disbursed subsequently. The initially recognised amount does not include costs that, despite having the above characteristics, are to be reimbursed by the counterparty or that are administrative costs.

Measurement

After initial recognition, loans and receivables are measured at amortised cost using the effective interest method.

Interest is recognised in caption 10 "Interest and similar income" of the income statement.

Loans and receivables are tested for impairment at each reporting date to determine whether there is objective evidence of impairment due to events subsequent to initial recognition. Indication of impairment is based on one or more events that took place after initial recognition that have an impact on the estimate of future cash flows of a financial asset or a group of financial assets that can be measured reliably.

Loans and receivables tested individually for impairment include positions classified as non-performing, doubtful or restructured as per the Bank of Italy regulations. Assets not tested individually or for which impairment has not been identified are tested collectively.

The individual impairment test measures the difference between the carrying amount and present value of estimated future cash flows discounted at the position's original effective interest rate.

Estimated cash flows include guarantees securing the debtor's exposure and their probable enforcement. When enforcement of the guarantees is unlikely, the bank uses their present value, while if it is probable that they will be enforced, the bank considers their realisable value net of the costs to be incurred for enforcement.

Impairment losses are recognised in caption 130 "Net impairment losses" in the income statement.

Loans and receivables are reinstated to their original value in subsequent periods when the reasons for impairment are no longer valid, as long as this assessment is objectively linked to an event that took place after recognition of the impairment loss. Reversals of impairment losses are recognised in the income statement and may not exceed the position's amortised cost had the impairment loss not been recognised.

Loans and receivables that are not tested individually for impairment are tested collectively. They are grouped into categories based on their risk and the related impairment loss percentages are estimated considering historical data, based on elements observable at their measurement date, so as to estimate each category's unrealised loss. The impairment test considers the counterparty's country risk. Collective impairment losses are recognised in profit or loss.

Derecognition

Financial assets or parts of financial assets are derecognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

7 - Equity investments

Investments in subsidiaries and associates are recognised and measured at cost, which equals the fair value of the consideration paid, less any subsequent impairment losses.

Investments in entities other than subsidiaries, associates and joint ventures are classified as AFS financial assets and treated accordingly.

The bank did not have to perform special judgements or make significant assumptions in order to establish the existence of control over subsidiaries and significant influence over associates.

8 - Property, equipment and investment property

Classification

This caption includes land, owner-occupied property, investment property, furniture and fittings and all equipment. It also comprises assets under finance lease.

Recognition

Assets acquired on the market are recognised as assets when the main risks and rewards of title are transferred. Initial recognition is at cost, which includes all directly related charges.

Land is recognised separately, including when it is purchased together with the building, using the component approach. It is separated from the building based on third party appraisals.

The cost of extraordinary maintenance that increases the item's future economic benefits is capitalised while other ordinary maintenance costs are expensed.

Measurement

Property, equipment and investment property are subsequently measured at cost adjusted by accumulated depreciation and any impairment losses/reversals of impairment losses.

The depreciable value of property and equipment equals their cost as the residual value after depreciation is not deemed significant. Depreciation is charged systematically on a straight-line basis over the assets' estimated useful life to reflect their technical-economic life and residual use.

The useful life of the main categories of property, equipment and investment property is as follows:

- furniture and fittings: 8 years;
- owner-occupied buildings: maximum 33 years;
- investment property: maximum 33 years;

Land is not depreciated as it has an indefinite life nor are works of art as their useful lives cannot be estimated and their value usually increases over time.

The bank tests the assets for impairment at every reporting date. If there is indication of impairment, it compares the asset's carrying amount to its recoverable amount being the higher of fair value and value in use.

Derecognition

Property, equipment and investment property are derecognised when sold or when no future economic benefits are expected from their continued use or sale.

9 - Intangible assets

Classification

An intangible asset is an identifiable non-monetary asset without physical substance able to generate future economic benefits controllable by the entity.

Recognition

Intangible assets are recognised at cost when the principal risks and rewards are transferred, only when it is probable that the related future economic benefits will materialise and cost can be measured reliably. Otherwise, cost is expensed in the period in which it is incurred.

Measurement

All intangible assets other than goodwill are considered to have finite useful lives and are amortised in line with their cost and related useful lives.

In particular:

- technology related intangibles, such as software acquired and software development cost, which are amortised on the basis of their expected technological obsolescence and over a maximum period of five years. In particular, the costs incurred for the development of software projects are considered as intangible assets and are recognised under assets only when all the following conditions are met: i) the cost attributable to the intangible asset during its development can be measured reliably, (ii) there is the intention, the availability of financial resources and the technical ability of making the intangible asset available for use or sale, (iii) the future economic benefits to be generated by the asset can be demonstrated. Software development capitalised costs only comprise the costs directly attributable to the development process.
- intangible assets relating to the Depositary services, recorded following the acquisition of contracts or business units, have an estimated useful life of ten years depending on the contractual terms.

Their residual value is taken to be nil.

The bank tests the assets for impairment at every reporting date. If there is indication of impairment, it compares the asset's carrying amount to its recoverable amount being the higher of fair value and value in use.

Derecognition

The bank derecognises intangible assets when they are sold or when it does not expect to receive future economic benefits from their continued use or sale.

Goodwill

Goodwill arising on business combinations is the difference between the consideration paid, including related costs, and fair value of the assets acquired and the liabilities assumed at the transaction date. If the difference is positive, it is recognised as an asset (goodwill), being a payment by the acquiree for future economic benefits to be generated by assets that cannot be identified individually or recognised separately. If the difference is negative, it is recognised directly in profit or loss (excess cost).

Goodwill is recognised at cost, net of accumulated impairment losses. It is not amortised.

It is tested annually for impairment even if there are no indicators of impairment.

Impairment losses on goodwill are recognised in caption 230 “Impairment losses on goodwill” of the income statement. They are not reversed in subsequent periods.

11 - Current and deferred taxes

The bank estimates current and deferred taxes, considering the domestic tax consolidation scheme.

Current taxes, calculated considering the domestic tax consolidation scheme, not yet paid in whole or in part at the reporting date are recognised as tax liabilities in the statement of financial position. If payments on account in the current or previous reporting period exceed the related tax expense, the difference is recognised as a tax asset in caption 130 “Tax assets - a) current”.

Current and deferred taxes are recognised in caption 260 “Income taxes” of the income statement unless they relate to gains or losses on AFS financial assets and actuarial gains and losses, which are recognised directly in the valuation reserves, net of tax.

Deferred tax assets and liabilities are recognised in the statement of financial position without offsetting as “Tax assets” and “Tax liabilities”, respectively.

The income tax expense is calculated on the basis of an estimate of the current and deferred tax expense and income. Specifically, deferred tax assets and liabilities are calculated on the temporary differences between the carrying amounts of assets and liabilities and their tax bases. The bank recognises deferred tax assets (in caption 130.b) for deductible temporary differences and carryfoward tax losses that will reverse in subsequent periods when it is probable that it will make a taxable profit in the same period, according to its business plans, against which it can offset the deferred tax asset.

Deferred tax liabilities are calculated on all taxable temporary differences, excluding only reserves taxed upon distribution as, given the amount of the taxed available reserves, the bank does not expect to undertake transactions that would require their taxation.

Deferred tax assets and liabilities are calculated using the tax rates expected to be enacted in the period in which the deferred tax asset will be recovered or the deferred tax liability extinguished, based on the ruling tax laws.

They are remeasured regularly to reflect any changes in the tax laws or rates or any subjective situations in which the bank may find itself.

12 - Provisions for risks and charges

Pension and similar provisions

Internal pension plans are considered to be defined benefit plans. The bank calculates the related liabilities and current service cost using actuarial assumptions and the projected unit credit method. This method projects future payments using historical figures and the demographic curve and discounts these flows using a market interest rate. The discount rate is the average market rate at the measurement date. The present value of the bank's liability at the reporting date is also adjusted by the fair value of any plan assets.

Other provisions

The bank recognises provisions for risks and charges when:

- it has a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of resources will be necessary to settle the obligation;

and

- the liability can be reliably estimated.

When the effect of the time value of money is material, the provision is discounted using the current market rates at the closing date. Accruals and increases due to the time factor are recognised in profit or loss. Where discounting is used, the increase in the provision due to the passage of time is recognised as interest expense.

Provisions and contingent liabilities are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

13 - Liabilities and Securities issued

Classification

An issued financial instrument is classified as a liability when, based on the substance of the contractual agreement, the bank has a contractual obligation to deliver cash or another financial asset to another party.

Due to banks and customers include funding obtained on the interbank market and from customers, including through repurchase agreements and the placing of bonds and certificates of deposit.

They also include finance lease liabilities.

Recognition

Amounts due to banks are recognised at the contract agreement date, which is usually when the bank receives the funds and issues the debt instruments.

Financial liabilities are initially recognised at fair value, which is normally the amount received or the issue price, plus the directly related costs/income. Internal administrative costs are excluded.

Measurement

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

Interest is recognised in caption 20 “Interest and similar expense” of the income statement.

Derecognition

Financial liabilities, or parts thereof, are derecognised when they are extinguished, i.e., when the obligation is complied with, cancelled or has expired.

14 - Financial liabilities held for trading

This caption includes derivatives held for trading with negative fair values.

All financial liabilities held for trading are measured at fair value and the fair value gains or losses are recognised in profit or loss.

The measurement and recognition criteria are identical to those used for financial assets held for trading.

16 - Foreign currency transactions

Initial recognition

Upon initial recognition, a foreign currency transaction is translated into the functional currency using the spot exchange rate ruling at the transaction date.

Subsequent measurement

Foreign currency assets and liabilities are retranslated into Euros at each subsequent reporting date using the following criteria:

- monetary items are retranslated using the closing rates;
- non-monetary items measured at historical cost are retranslated using the transaction-date exchange rates;
- non-monetary items measured at fair value are retranslated using the closing rates.

Exchange rate differences arising from the settlement of monetary items are recognised in profit or loss in the period in which they arise; exchange rate differences on non-monetary items are recognised in equity or in profit or loss in line with the method used to recognise the gains or losses that include this component.

Foreign currency costs and revenue are translated at the exchange rate ruling on their recognition date or, if they have not been realised, at the closing spot rate.

17 - Other information

Post-employment benefits

The Italian post-employment benefits (TFR) are a form of deferred remuneration paid to employees when they leave the bank. They accrue over the employment term and are recognised under personnel expense.

Following the Italian supplementary pension reform introduced with Legislative decree no. 252 of 5 December 2005, benefits accruing from 1 January 2007 are calculated without using an actuarial approach as the bank's liability is limited to its contribution defined by the Italian Civil Code (defined contribution plan as per IAS 19).

Post-employment benefits vested up to 31 December 2006 continue to be considered defined benefit plans under IAS 19. Accordingly, the related obligation is subject to actuarial valuation using the projected unit credit method. This method projects future payments using historical statistics and the demographic curve and discounts these flows using a market interest rate.

The rate used to discount the post-employment benefit obligation (both funded and unfunded) varies from country to country. It is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The term of the corporate bonds is consistent with the estimated term of the post-employment benefit obligations.

Specifically, the amount recognised as a liability in caption 120.a) equals the net balance of the obligation's present value at the reporting date, the sum of any actuarial gains or losses, less any pension costs for past service not yet recognised and the current value of plan assets, if any, at the reporting date that will be used to directly extinguish the obligation.

Starting from the 2013 separate financial statements, the bank has recognised actuarial gains and losses in the statement of comprehensive income as required by the revised IAS 19.

Before that, they had been recognised immediately in profit or loss.

Interest accrued on the net liability continues to be recognised.

Treasury shares

Repurchased treasury shares are directly offset against equity. No gain or loss on the repurchase, sale, issue or extinguishment of these shares can be recognised in profit or loss. Any amounts paid or received for these shares are recognised directly in equity.

The bank has set up the specific reserve as per article 2357-ter of the Italian Civil Code.

Measurement of the fair value of financial instruments

The fair value of financial instruments is measured using the financial market prices in the case of instruments listed on active markets or by using internal measurement models for other financial instruments.

More information is available in section A.4 Fair value disclosure.

The fair value of financial assets and liabilities carried at cost or amortised cost is disclosed in the notes and is determined as follows:

- for non-current financial assets and liabilities, the discounted cash flow method is mainly used;
- for on demand assets and liabilities, with a short term or undetermined maturity, the carrying amount net of a collective/individual impairment loss is deemed to reasonably reflect fair value as it reflects changes in interest rates and the issuer credit risk;
- for floating-rate and current fixed-rate securities issued, the carrying amount is deemed to adequately reflect fair value, for the reasons set out above;
- for non-current fixed-rate liabilities, the discounted cash flow method, without considering changes in its credit spread, given its immateriality, is used.

Measurement of fair value of non-financial assets

The fair value of investment property is only calculated for disclosure in the notes. The bank uses third party appraisals that are usually based on criteria similar to the direct synthetic estimate method, considering transactions at current prices in an active market for similar real estate assets in the same location and condition and that have the same lease and other contractual terms.

Determination of impairment losses on goodwill

Impairment losses on goodwill are determined using the discounted cash flow method.

Guarantees issued

Guarantees issued, credit derivatives and similar instruments as per IAS 39 and subsequent impairment losses are recognised in caption 100 “Other liabilities”.

Income statement

<u>Interest income and expense</u>

Interest income and expense and related income and expense relate to cash and cash equivalents, non-derivative financial assets and liabilities held for trading, AFS financial assets, HTM investments, loans and receivables, liabilities and securities issued.

Interest income and expense are recognised in profit or loss on all instruments measured at amortised cost, using the effective interest method.

<u>Fee and commission income and expense</u>

They are recognised on an accruals basis.

Specifically, trading commissions on securities are recognised when the service is rendered.

Fees and commissions included in amortised cost to calculate the effective interest rate are excluded as they are recognised under interest.

<u>Dividends</u>

Dividends are recognised in profit or loss when their distribution is approved.

<u>Other income and costs</u>

They are recognised on an accruals basis.

Utilisation of estimates and assumptions in the preparation of the separate financial statements

The separate financial statements captions are measured using the policies set out above.

Application of these policies sometimes involves the adoption of estimates and assumptions that may have a significant effect on the carrying amount of assets and liabilities, income and expenses.

The use of reasonable estimates is an essential part of the preparation of financial statements but must not affect their reliability. The financial statements captions affected to a greater extent by the use of estimates and assumptions are:

- measurement of financial assets not listed on active markets;
- measurement of intangible assets and equity investments;
- quantification of accruals to provisions for risks and charges;
- quantification of deferred liabilities.

A change in an accounting estimate may occur due to changes in the circumstances on which the estimate was based or as a result of new information or more experience. The effect of a change in an accounting estimate is recognised prospectively by including it in profit or loss of the period of the change and, if the change affects future periods, also in future periods.

In this financial year, the accounting treatment of the reverse merger with Mercury Italy S.r.l., has determined the revaluation of properties held by ICBPI and simultaneously the revision of the useful life. These changes, on the whole, resulted in no significant impacts were reported in 2016.

A.3. Transfers between portfolios of financial assets

A.3.1 Reclassified financial assets: carrying amount, fair value and effects on comprehensive income

Type of financial instrument	Original portfolio	Portfolio to which transfer is made	Carrying amount at 31/12/2016	Fair value at 31/12/2016	Income or expense if transfer had not taken place (before taxes)		Income or expense for the year (before taxes)	
					Fair value gain/loss	Other	Fair value gain/loss	Other
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Debt instruments	Financial assets held for trading	Available-for-sale financial assets	52,691	52,691	289	-	1,447	-

A.3.2. Reclassified financial assets: effects on comprehensive income before transfer

No transfers among portfolios took place during the year.

A.3.3. Transfers of financial assets held for trading

In 2011, as the rare circumstances provided for by IAS 39 arose, the bank reclassified Italian treasury credit certificates from the HFT portfolio to the AFS portfolio.

These rare circumstances related to the international sovereign debt crisis of June 2011 and the continuously widening spread of the German bund.

A.4 Fair value disclosure

The IFRS require that financial products classified in the HFT or AFS portfolios be measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the principal market (i.e., not a forced liquidation or distress sale) at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

IFRS 13 establishes a hierarchy for measuring fair value of financial instruments depending on the entity's use of discretion, prioritising the use of relevant observable inputs that reflect the assumptions that market participants would use to price assets/liabilities.

The fair value hierarchy has three input levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices);
- Level 3: unobservable inputs for the asset or liability.

The decision about which level to use is not optional as they are to be applied in hierarchical order. Highest priority is given to official prices available on active markets for the assets or liabilities to be measured (level 1) or assets and liabilities measured using techniques based on parameters observable on the market other than prices (level 2) and the lowest priority is given to assets and liabilities whose fair value is calculated using techniques that are based on unobservable inputs and which are, therefore, more discretional (level 3).

The bank uses the reporting date market price for instruments listed on active markets (level 1).

The fair value of financial instruments not listed on active markets is measured using techniques mainly based on discounting cash flows. These techniques consider all the factors that the market uses to set the price which are mainly inputs observable on the market (level 2). Specifically:

- bonds are measured by discounting the expected future cash flows of the contractual plan, adjusted for the issuer credit risk.
- derivatives, consisting of OISs, and options are measured using the market models that mainly use market rates as their input, adjusted to reflect counterparty risk. This risk includes changes in the counterparty's credit standing and in the issuer's credit standing (own credit risk), if material;
- a fair value hierarchy has been developed for shares and an application order for the measurement methods which considers any significant transactions involving the share in a sufficiently short time period compared to the measurement period, comparable transactions carried out by companies operating in the same sector and the application of financial, income and equity analytical valuation methods.

The valuation model adopted for a financial instrument is the same over time, adjusted only in the case of significant changes in market conditions or subjective changes affecting the issuer.

The bank did not have at the reporting date, nor did it trade in during the year, level 3 financial instruments, except for immaterial amounts.

Qualitative disclosure

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

As noted above, the bank does not have nor did it trade in level 3 financial instruments, except for immaterial amounts.

It measured level 2 financial instruments (mainly Swap, DCS and stock options) using market interest rates and volatility. Given the bank's limited operations in the unlisted derivatives segment, its transactions mainly with Italian institutional counterparties and, with the most relevant of them, its guarantees mitigating risk, the adjustments made to the level 2 instruments to reflect counterparty risk were immaterial.

A.4.2 Measurement processes and sensitivity

As noted above, the bank does not have level 3 financial instruments, except for immaterial amounts.

A.4.3 Fair value hierarchy

Transfers between the fair value levels are made to reflect changes in the instruments or its market.

Transfers from level 1 to level 2 are made when there is an inadequate number of contributors or a limited number of investors that hold the outstanding float.

Conversely, instruments that are illiquid when issued and have a small number of trades classified in level 2 are transferred to level 1 when an active market exists.

A.4.4 Other disclosures

The bank did not avail of the exception under IFRS 13.48 to measure the net positions of groups of assets and liabilities managed on a net basis.

The bank does not hold assets, the current use of which differs from their highest and best use.

Quantitative disclosure

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level

	31/12/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	11,445	1,748	-	13,127	5,613	-
2. Financial assets at fair value through profit or loss	-	-	-	-	-	-
3. Available-for-sale financial assets	3,170,102	140,227	-	2,570,122	35,174	-
4. Hedging derivatives	-	-	-	-	-	-
5. Property, equipment and investment property	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**3,181,547**	**141,974**	**-**	**2,583,249**	**40,788**	**-**
1. Financial liabilities held for trading	438	7,629	-	838	4,049	-
2. Financial liabilities at fair value through profit or loss						
3. Hedging derivatives						
Total	**438**	**7,629**	**-**	**838**	**4,049**	**-**

The bank did not transfer assets and liabilities between level 1 and level 2 during the year.
Given the bank's limited operations in the unlisted derivative segment, the fact that it solely works with Italian institutional counterparties and the existence of guarantees that mitigate counterparty risk, the above fair value is not significantly influenced by adjustment factors for counterparty risk (credit value adjustments and/or debit value adjustments).

A.4.5.2 Changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets held for trading	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Hedging derivatives	Property, equipment and investment property	Intangible assets
1. Opening balance	-	-	-	-	-	-
2. Increases						
2.1. Purchases						
2.2. Gains recognised in:						
2.2.1. Profit or loss						
- including gains on sales						
2.2.2. Equity	X	X				
2.3. Transfers from other levels						
2.4. Other increases						
3. Decreases						
3.1. Sales						
3.2. Repayments						
3.3. Losses recognised in:						
3.3.1. Profit or loss						
- including losses on sales						
3.3.2. Equity	X	X				
3.4. Transfers to other levels						
3.5. Other decreases						
4. Closing balance	-	-	-	-	-	-

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

	31/12/2016				31/12/2015			
	CA	**L1**	**L2**	**L3**	**CA**	**L1**	**L2**	**L3**
1. Held-to-maturity investments	15,933	15,933	-	-	31,784	26,502	-	-
2. Loans and receivables with banks	739,377	-	739,377	-	805,418	-	805,418	-
3. Loans and receivables with customers	1,580,147	-	1,580,147	-	2,453,453	-	2,453,453	-
4. Investment property	69,278	-	72,420	-	63,766	-	92,376	-
5. Non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-
Total	**2,404,735**	**15,933**	**2,391,944**	**-**	**3,354,421**	**26,502**	**3,351,247**	**-**
1. Due to banks	1,100,207	-	1,100,207	-	1,021,500	-	1,021,500	-
2. Due to customers	6,228,123	-	6,228,123	-	4,523,072	-	4,523,072	-
3. Securities issued	-	-	-	-	-	-	-	-
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**7,328,329**	**-**	**7,328,329**	**-**	**5,544,572**	**-**	**5,544,572**	**-**

Key:
CA = carrying amount
L1 = level 1
L2 = level 2
L3 = level 3

A.5 Information on "day one profit or loss"

Pursuant to IFRS 7.28 and IAS 39.AG.76, a financial instrument shall be initially recognised at an amount that is equal to its fair value, which is generally considered to be the price paid/collected from its trading. In practice, there could be a difference between the two values. In these cases, the standard stipulates that a financial instrument can be recognised at a fair value different from the amount paid/collected only if it is measured:

- using prices from observable current market transactions in the same instrument;
- using valuation techniques exclusively based on observable market date as the variable factors.

In other words, IAS 39 states that the presumption that the fair value is equal to the price paid/collected can be rebutted only if it is determined using objective evidence that the price paid/collected does not represent the real market value of the financial instrument being traded.

The objective evidence shall be obtained using the most objective method available, i.e., reducing valuation discretion to the minimum.

The difference between fair value and the negotiated price, when the above conditions are met, is called the "day one profit or loss" and is immediately taken to profit or loss.

The bank did not recognise transactions of this kind in the year.

Part B – NOTES TO THE STATEMENT OF FINANCIAL POSITION

ASSETS

Section 1 - Cash and cash equivalents - Caption 10

1.1 Cash and cash equivalents: breakdown

	31/12/2016	31/12/2015
a) Cash	448	576
b) Demand deposits with central banks	1,798,314	21,790
Total	**1,798,761**	**22,366**

Section 2 - Financial assets held for trading - Caption 20

2.1 Financial assets held for trading: breakdown by product

	31/12/2016			31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Assets						
1. Debt instruments	11,406	-	-	13,084	-	-
1.1 Structured instruments	314	-	-	482	-	-
1.2 Other instruments	11,092	-	-	12,602	-	-
2. Equity instruments	13	-	-	21	4	-
3. OEIC units	26	-	-	22	-	-
4. Financing	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**11,445**	**-**	**-**	**13,127**	**4**	**-**
B. Derivatives						
1. Financial derivatives:	-	1,748	-	-	5,608	-
1.1 Trading	-	1,748	-	-	5,608	-
1.2 Associated with fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 Trading	-	-	-	-	-	-
2.2 Associated with fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
Total B	**-**	**1,748**	**-**	**-**	**5,608**	**-**
Total (A + B)	**11,445**	**1,748**	**-**	**13,127**	**5,612**	**-**

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

	31/12/2016	31/12/2015
A. Assets		
1. Debt instruments		
a) Governments and central banks	190	382
b) Other government agencies	92	13
c) Banks	10,212	11,327
d) Other issuers	912	1,362
2. Equity instruments		
a) Banks	11	7
b) Other issuers:	2	17
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	2	16
- other	-	1
3. OEIC units	26	22
4. Financing		
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
Total A	**11,445**	**13,131**
B. Derivatives		
a) Banks	1,598	4,528
b) Customers	150	1,081
Total B	**1,748**	**5,608**
Total (A + B)	**13,193**	**18,739**

Section 4 - Available-for-sale financial assets - Caption 40

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

	31/12/2016			31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt instruments						
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other instruments	3,169,903	-	-	2,569,429	-	-
2. Equity instruments						
2.1 FVTPL	199	99,992	-	693	1,603	-
2.2 Cost	-	-	-	-	-	-
3. OEIC units	-	40,235	-	-	33,571	-
4. Financing	-	-	-	-	-	-
Total	**3,170,102**	**140,227**	**-**	**2,570,122**	**35,174**	**-**

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

	31/12/2016	31/12/2015
1. Debt instruments		
a) Governments and central banks	3,169,903	2,569,429
b) Other government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity instruments		-
a) Banks	352	846
b) Other issuers:	99,839	1,450
-insurance companies	-	-
-financial companies	995	995
-non-financial companies	98,844	455
-other	-	-
3. OEIC units	40,235	33,571
4. Financing	-	-
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
Total	**3,310,329**	**2,605,296**

The increase of the caption "Available for sale financial assets" is related to:

- Transfer of Equens' share from the equity investment portfolio to the AFS portfolio due to the loss of significant influence connected to Tulipe Transaction that has reduced the voting rights of ICBPI to under 20%
- Investment in Italian governments bond made during the year.

Section 5 - Held-to-maturity investments - Caption 50

5.1 Held-to-maturity investments: breakdown by product

	31/12/2016				31/12/2015			
	CA	FV			CA	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt instruments								
- structured instruments	4,948	4,948	-	-	4,942	4,942	-	-
- other instruments	10,985	10,985	-	-	26,842	26,502	-	-
2. Financing	-	-	-	-	-	-	-	-
Total	**15,933**	**15,933**	**-**	**-**	**31,784**	**31,444**	**-**	**-**

Key
FV = fair value
CA = carrying amount

The decrease is due to the repayment of matured securities.

5.2 Held-to-maturity investments: breakdown by debtor/issuer

	31/12/2016	31/12/2015
1. Debt instruments		
a) Governments and central banks		
b) Other government agencies		
c) Banks	15,933	29,796
d) Other issuers	-	1,988
2. Financing		
a) Governments and central banks		
b) Other government agencies		
c) Banks		
d) Other		
Total	**15,933**	**31,784**

Section 6 - Loans and receivables with banks - Caption 60

6.1 Loans and receivables with banks: breakdown by product

	31/12/2016				31/12/2015			
	CA	FV			CA	FV		
		L1	L2	L3		L1	L2	L3
A. Loans and receivables with central banks	**-**	**-**	**170,519**	**-**	**-**	**-**	**149,479**	**-**
1. Term deposits	-	X	X	X	-	X	X	X
2. Minimum reserve	170,519	X	X	X	149,479	X	X	X
3. Reverse repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Loans and receivables with banks	**-**	**-**	**568,859**	**-**	**-**	**-**	**655,939**	**-**
1. Financing	-	-	-	-	-	-	-	-
1.1 Current accounts and demand deposits	172,491	X	X	X	273,704	X	X	X
1.2 Term deposits	862	X	X	X	33,783	X	X	X
1.3 Other financing:	-	X	X	X	-	X	X	X
- Reverse repurchase agreements	231,707	X	X	X	189,653	X	X	X
- Finance leases	-	X	X	X	-	X	X	X
- Other	159,744	X	X	X	154,908	X	X	X
2. Debt instruments	-	-	-	-	-	-	-	-
2.1 Structured instruments	-	X	X	X	-	X	X	X
2.2 Other instruments	4,055	X	X	X	3,891	X	X	X
Total	**739,377**	**-**	**739,377**	**-**	**805,418**	**-**	**805,418**	**-**

Key
FV = fair value
CA = carrying amount

Section 7 - Loans and receivables with customers - Caption 70

7.1 Loans and receivables with customers: breakdown by product

	31/12/2016						31/12/2015					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Unimpaired	Impaired		L1	L2	L3	Unimpaired	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Financing	**1,579,756**	**-**	**391**	**-**	**1,579,756**	**-**	**2,453,062**	**-**	**391**	**-**	**2,453,062**	**-**
1. Current accounts	1,237,865	-	391	X	X	X	1,453,520	-	391	X	X	X
2. Reverse repurchase agreements	207,517	-	-	X	X	X	806,784	-	-	X	X	X
3. Loans	-	-	-	X	X	X	-	-	-	X	X	X
4. Credit cards, personal loans and salary backed loans	2,044	-	-	X	X	X	2,087	-	-	X	X	X
5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7. Other financing	132,330	-	-	X	X	X	190,672	-	-	X	X	X
Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
8. Structured instruments	-	-	-	X	X	X	-	-	-	X	X	X
9. Other instruments	-	-	-	X	X	X	-	-	-	X	X	X
Total	**1,579,756**	**-**	**391**	**-**	**1,579,756**	**-**	**2,453,062**	**-**	**391**	**-**	**2,453,062**	**-**

7.2 Loans and receivables with customers: breakdown by debtor/issuer

	31/12/2016			31/12/2015		
	Unimpaired	Impaired		Unimpaired	Impaired	
		Purchased	Other		Purchased	Other
1. Debt instruments						
a) Governments	-	-	-	-	-	-
b) Other government agencies	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Financing to:						
a) Governments	-	-	-	-	-	-
b) Other government agencies	-	-	-	-	-	-
c) Other issuers	1,579,756	-	391	2,453,062	-	391
- non-financial companies	160	-	-	30,408	-	-
- financial companies	1,577,364	-	391	2,420,377	-	391
- insurance companies	50	-	-	-	-	-
- other	2,182	-	-	2,277	-	-
Total	**1,579,756**	**-**	**391**	**2,453,062**	**-**	**391**

Section 10 - Equity investments - caption 100

10.1 Equity investments

	Registered office	Operating office	Investment %	Voting rights %
A. Wholly-controlled subsidiaries				
1. Oasi-Diagram S.p.A.	Milan	Milan/Rome	100.00	100.00
2. CartaSi S.p.A.	Milan	Milan/Rome	98.74	98.74
3. Help Line S.p.A.	Cividale del Friuli	Cividale del Friuli/Milan	70.00	70.00
C. Associates				
1. Hi.Mtf Sim S.p.A.	Milan	Milan	25	25
2. Unione Fiduciaria	Milan	Milan	24	24

10.5 Equity investments: changes

	31/12/2016	31/12/2015
A. Opening balance	520,655	490,836
B. Increases		
B.1 Purchases	25,304	29,819
B.2 Reversals of impairment losses		-
B.3 Fair value gains		-
B.4 Other increases	1,185,843	-
C. Decreases		
C.1 Sales	-	-
C.2 Impairment losses	22,035	-
C.3 Other decreases	98,389	-
D. Closing balance	1,611,379	520,655
E. Total fair value gains		-
F. Total impairment losses		

The caption B4 “Other increases” is connected to the reverse merger of Mercury Italia Srl in ICBPI that has determined, consistently with the allocation process (PPA) of the consolidation difference in Mercury UK HoldCo’s consolidated financial statement, the revaluation of ICBPI’s equity investments as partial allocation of the cancellation deficit

The caption C2 “Impairment losses” is mainly related to the impairment (in respect to the value accounted consequently to the PPA above mentioned) of the Investment in Equens SE due to the dividend distribution made by the company. As a result of the impairment loss recorded, the book value of the equity investment is equal to the fair value.

The caption C3 “Other decreases” is related to the transfer of the fair value of Equens’s shares to the AFS portfolio due to the dilution to under 20% of ICBPI’s voting rights.

Section 11 - Property, equipment and investment property - Caption 110

11.1 Property and equipment: breakdown of assets measured at cost

	31/12/2016	31/12/2015
1. Owned		
a) land	2,640	3,136
b) buildings	5,876	9,078
c) furniture	512	601
d) electronic systems	-	-
e) other	1,115	931
2. Under finance lease	-	-
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**10,143**	**13,746**

11.2 Investment property: breakdown of assets measured at cost

	31/12/2016				31/12/2015			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Owned								
a) land	39,739				38,781			
b) buildings	29,539				24,985			
2. Under finance lease	-				-			
a) land	-				-			
b) buildings	-				-			
Total	**69,278**		**72,420**		**63,766**		**92,376**	

11.5 Property and equipment: changes

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**3,136**	**13,534**	**4,048**	**-**	**30,228**	**50,946**
A.1 Total net impairment losses	-	4,456	3,447	-	29,297	37,200
A.2 Net opening balance	**3,136**	**9,078**	**601**	**-**	**931**	**13,746**
B. Increases	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Purchases	-	-	57	-	557	615
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other increases	-	-	-	-	203	203
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Sales	-	-	-	-	203	203
C.2 Depreciation	-	284	146	-	374	804
C.3 Impairment losses recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) disposal groups	-	-	-	-	-	-
C.7 Other decreases	496	2,918	-	-	-	3,414
D. Net closing balance	**2,640**	**5,876**	**512**	**-**	**1,115**	**10,143**
D.1 Total net impairment losses	496	7,658	3,593	-	29,873	41,620
D.2 Gross closing balance	**3,136**	**13,534**	**4,105**	**-**	**30,988**	**51,763**
E. Cost						

11.6 Investment property: changes

	Total	
	land	buildings
A. Opening balance	**38,781**	**24,985**
B. Increases		
B.1 Purchases		
B.2 Capitalised improvement costs		
B.3 Fair value gains		
B.4 Reversals of impairment losses		
B.5 Exchange rate gains		
B.6 Transfers from property and equipment		
B.7 Other increases	1,834	8,594
C. Decreases		
C.1 Sales		
C.2 Depreciation	-	1,413
C.4 Fair value losses		
C.4 Impairment losses		
C.5 Exchange rate losses		
C.6 Transfers to other portfolios		
a) property and equipment		
b) non-current assets held for sale		
C.7 Other decreases	875	2,628
D. Closing balance	**39,739**	**29,539**
E. Fair value	**72,420**	

The captions B.7 and C.7 “Other increase/decrease” are related to the reverse merger of Mercury Italia Srl in ICBPI that has determined, consistently with the allocation process (PPA) of the consolidation difference in Mercury UK HoldCo’s consolidated financial statement, the revalutation of ICBPI’s properties.

Investment property is covered by IAS 40 and includes property held to earn rental and/or obtain appreciation of invested capital.

Investment property is measured at cost, net of depreciation.

The bank’s investment properties granted under operating leases are listed below:

- building in via Verziere 11, Milan,
- building in via Cavallotti 14, Milan,
- building in via Zurigo 3, Milan,
- building in via Broletto 37, Milan,
- building in Corso Europa 18, Milan,

At the reporting date, there are no:

- restrictions to the sale of investment property or the collection of lease payments;
- obligations/contractual commitments to purchase, build, develop, repair or maintain owner-occupied property.

Section 12 - Intangible assets - Caption 120

12.1 Intangible assets: breakdown by asset

	31/12/16		31/12/15	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**-**	**246,663**		**14,941**
A.2 Other intangible assets				
A.2.1 Assets measured at cost:	-	-		
a) Internally generated assets	-	-		
b) Other	66,717	-	68,354	
A.2.2 Assets measured at fair value:	-	-		
a) Internally generated assets	-	-		
b) Other	-	-		
Total	**66,717**	**246,663**	**68,354**	**14,941**

The increase is mainly related to the residual part of the cancellation deficit arising from the reverse merger of Mercury Italia Srl in ICBPI, not allocated to other items, amounting to Euro 246.7 million.

12.2 Intangible assets: changes

	Goodwill	Other intangible assets: internally generated assets		Other intangible assets: other		Total
		FIN.	IND.	FIN.	IND.	
A. Opening balance	14,941	-	-	129,909	-	144,850
A.1 Total net impairment losses	-	-	-	61,555	-	61,555
A.2 Net opening balance	14,941	-	-	68,354	-	83,295
B. Increases						
B.1 Purchases	-	-	-	13,516	-	13,516
B.2 Increase in internally generated assets						
B.3 Reversals of impairment losses						
B.4 Fair value gains recognised in:						
- equity						
- profit or loss						
B.5 Exchange rate gains						
B.6 Other increases	231,722	-	-	-	-	231,722
- business combinations						
C. Decreases						
C.1 Sales						
C.2 Impairment losses						
- Amortisation	-	-	-	15,153	-	15,153
- Fair value losses						
+ equity						
+ profit or loss						
C.3 Fair value losses recognised in:						
- equity						
- profit or loss						
C.4 Transfers to non-current assets held for sale						
C.5 Exchange rate losses						
C.6 Other decreases						
D. Net closing balance	**246,663**	**-**	**-**	**66,717**	**-**	**313,380**
D.1 Total net impairment losses	-	-	-	76,708	-	76,708
E. Gross closing balance	**246,663**	**-**	**-**	**143,425**	**-**	**390,088**
F. Cost						

Key
FIN: finite life
IND. = indefinite life

During the year 2016, the entity adopted the analysis and reporting tools necessary to proceed to the capitalization of software development costs.

Impairment test

ICBPI has performed impairment tests on intangible assets with an indefinite useful life.

Considering that at ICBPI level the goodwill arising from the merger with Mercury Italia Srl has been partially allocated on the controlling equity investments, the goodwill is equal to the amount of the unallocated cancellation deficit.

The impairment test has been performed for the following CGUS (cash-generating units), which have not changed compared to these performed for 2015 Financial Statements:

CGUs	Goodwill €'000
CGU Payment	200,763
CGU Securities Services	45,900
	246,663

The recoverable amount a CGU is the higher of its:

- Fair value less costs of disposal
- Value in Use

The estimate of Value in Use has been carried out by applying the Dividend Discount Model in its Excess Capital version which was developed from the ICBPI Group 2017-2021 Business Plan.

With regards to the Fair Value determination, the trading multiples method was applied, using the median P/E adjusted multiple of a panel of comparable companies.

The main parameters used to estimate the cost of Capital in the calculation of the Value in Use are the following:

Cost of Capital - Ke	ICBPI CGUs				Group Consolidated
	Cards	Payments	Securities Services	Outsourcing	
Risk Free at 31 Dec 2016	1.82%	1.82%	1.82%	1.82%	1.82%
Beta	1.13	1.12	1.18	0.91	1.13
Equity Market Risk Premium	6.02%	6.02%	6.02%	6.02%	6.02%
Market Risk Premium	**6.82%**	**6.73%**	**7.13%**	**5.46%**	**6.78%**
Cost of Capital	**8.63%**	**8.55%**	**8.95%**	**7.27%**	**8.60%**

They have been determined as follows:

- Risk free: gross yield of Italian BTP 10Y at December 31st 2016 (Source: Info provider)
- Beta used on consolidated DDM: weighted average of median betas of listed comparable companies identified for each CGU.
- Equity Market Risk Premium: ERP for Italy – December 2016 (Source: ERP by months – A. Damodaran)

In order to determine the Terminal Value of the CGUs:

- growth rate (g) 2.0%, in line with ECB's target for the inflation rate of the Euro Zone*.
- a prudential add-on of 100 bps to the discount rate has been applied.

The Distributable dividends during the explicit projections period and sustainable dividend for Terminal Value calculation have been determined considering the compliance with a minimum CET 1 target of 14.0% as established by Bank of Italy.

Valuation activities on goodwill submitted to impairment testing resulted in no indication of impairment loss for goodwill being tested.

It was carried out a sensitivity analysis to assess the change of the value in use at consolidated level, respect the changes in valuation parameters Ke and g (+/- 50 bps) the analysis does not show any issues.

Section 13 - Tax assets and liabilities - Caption 130 of assets and Caption 80 of liabilities

The increase of the caption "Current tax asset", amounting to Euro 22,495 thousand (Euro 8,658 thousand as at 31 December 2015), is mainly due to the reverse merger of Mercury Italia Srl in ICBPI, that has implied that ICBPI is the new parent company of the national tax consolidated report.

13.1 Deferred tax assets: breakdown

	31/12/2016	31/12/2015
IRAP		
Substitute tax on goodwill	3,543	3,580
Amortisation/depreciation	1,265	824
Other	81	5
IRES		
Substitute tax on goodwill	17,490	17,674
Provisions	3,435	3,532
Amortisation/depreciation	7,714	5,027
Other	1,018	625

13.2 Deferred tax liabilities: breakdown

	31/12/2016	31/12/2015
IRAP		
Fair value reserves	4,387	4,377
Goodwill	507	469
Other		
IRES		
Fair value reserves	21,843	21,519
Goodwill	2,504	2,313
Other	1,071	1,071

13.3 Changes in deferred tax assets (recognised in profit or loss)

	31/12/2016	31/12/2015
1. Opening balance	**30,739**	**30,361**
2. Increases		
2.1 Deferred tax assets recognised in the year		
a) related to previous years	616	
b) due to changes in accounting policies		
c) reversals of impairment losses		
d) other	3,729	1,557
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax assets derecognised in the year		
a) reversals	1,226	1,179
b) impairment due to non-recoverability		
c) change in accounting policies		
d) other	288	
3.2 Decrease in tax rates		
3.3 Other decreases		
a) conversion into tax assets as per Law no. 214/2011		
b) other		
4. Closing balance	**33,571**	**30,739**

The bank recognises deferred tax assets when it is reasonably certain they will be recovered through future taxable profits of amounts not less than the relevant temporary differences. It estimated an average rate of 27.5% for the IRES tax and a rate of 5.57% for the IRAP tax. Decreases mainly relate to utilisation of deferred tax liabilities.

13.3.1 Change in deferred tax assets as per Law no. 214/2011 (recognised in profit or loss)

	31/12/2016	31/12/2015
1. Opening balance	**27,184**	**26,111**
2. Increases	**1,323**	**1,417**
3. Decreases		
3.1 Reversals	606	344
3.2 Conversion into tax assets		
a) arising from the loss for the year		
b) arising from tax losses		
3.3 Other decreases		
4. Closing balance	**27,901**	**27,184**

13.4 Changes in deferred tax liabilities (recognised in profit or loss)

	31/12/2016	31/12/2015
1. Opening balance	17,620	**17,634**
2. Increases		
2.1 Deferred tax liabilities recognised in the year		
a) related to previous years		
b) due to changes in accounting policies		
c) other	3,621	230
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax liabilities derecognised in the year		
a) reversals	152	244
b) due to changes in accounting policies		
c) other		
3.2 Decrease in tax rates		
3.3 Other decreases		
4. Closing balance	**21,089**	**17,620**

13.5 Changes in deferred tax assets (recognised in equity)

	31/12/2016	31/12/2015
1. Opening balance	**527**	**497**
2. Increases		
2.1 Deferred tax assets recognised in the year		
a) related to previous years		
b) due to changes in accounting policies		
c) other	2,697	30
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax assets derecognised in the year		
a) reversals	2,249	
b) impairment due to non-recoverability		
c) due to changes in accounting policies		
3.2 Decrease in tax rates		
3.3 Other decreases		
4. Closing balance	**975**	**527**

13.6 Changes in deferred tax liabilities (recognised in equity)

	31/12/2016	31/12/2015
1. Opening balance	**12,130**	**15,801**
2. Increases		
2.1 Deferred tax liabilities recognised in the year		
a) related to previous years		
b) due to changes in accounting policies		
c) other	3,391	
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax liabilities derecognised in the year		
a) reversals	6,297	3,671
b) due to changes in accounting policies		
c) other		
3.2 Decrease in tax rates		
3.3 Other decreases		
4. Closing balance	**9,224**	**12,130**

Section 15 - Other assets - Caption 150

15.1 Other assets: breakdown

	31/12/2016	31/12/2015
Withholding taxes paid on interest charged to customers and other tax assets	34,270	33,743
Negotiated cheques to be cleared	11,644	9,198
Matured securities and accrued interest to be collected	70	605
Commissions and other income to be charged	75,192	74,234
BIREL, transfers, SETIF, received messages to be charged, e-money	80,074	70,949
Sundry and residual items	38,914	33,144
Total	**240,163**	**221,873**

LIABILITIES

Section 1 - Due to banks - Caption 10

1.1 Due to banks: breakdown by product

	31/12/2016	31/12/2015
1. Due to central banks	862	1,886
2. Due to banks	-	-
2.1 Current accounts and demand deposits	813,346	818,934
2.2 Term deposits	215,440	120,504
2.3 Financing	-	-
2.3.1 repurchase agreements	-	-
2.3.2 other	-	-
2.4 Commitments to repurchase own equity instruments	-	-
2.5 Other liabilities	70,559	80,176
Total	**1,100,207**	**1,021,500**
Fair value - level 1	**-**	**-**
Fair value - level 2	**1,100,207**	**1,021,500**
Fair value - level 3		
Total fair value	**1,100,207**	**1,021,500**

Section 2 – Due to customers – Caption 20

2.1 Due to customers: breakdown by product

	31/12/2016	31/12/2015
1. Current accounts and demand deposits	5,157,171	3,937,554
2. Term deposits	209	59
3. Financing		
3.1 repurchase agreements	231,676	100,026
3.2 other	-	-
4. Commitments to repurchase own equity instruments	-	-
5. Other liabilities	839,068	485,433
Total	**6,228,123**	**4,523,072**
Fair value - level 1		
Fair value - level 2	**6,228,123**	**4,523,072**
Fair value - level 3		
Total fair value	**6,228,123**	**4,523,072**

Section 4 - Financial liabilities held for trading - Caption 40

4.1 Financial liabilities held for trading: breakdown by product

	31/12/2016					31/12/2015				
	NA	FV			FV*	NA	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Financial liabilities										
1. Due to banks	69	90	-	-		520	578	-	-	
2. Due to customers	302	348	-	-		263	280	-	-	
3. Debt instruments	-	-	-	-		-	-	-	-	
3.1 Bonds	-	-	-	-		-	-	-	-	
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-		-	-	-	-	
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**371**	**438**	**-**	**-**		**783**	**858**	**-**	**-**	
B. Derivatives										
1. Financial derivatives										
1.1 Trading	X	-	7,629	-	X	X	-	4,049	-	X
1.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other		-	-	-			-	-	-	
2. Credit derivatives		-	-	-			-	-	-	
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X		-	-	X
Total B	**X**	**-**	**7,629**	**-**	**X**	**X**	**-**	**4,049**	**-**	**X**
Total (A + B)	**X**	**438**	**7,629**	**-**	**X**	**X**	**858**	**4,049**	**-**	**X**

Key
FV = fair value
FV = fair value calculated by excluding changes in value due to changes in the issuer's credit standing compared to the issue date.*
NA = nominal or notional amount
L1 = level 1
L2 = level 2
L3 = level 3

Section 8 - Tax liabilities - Caption 80

Reference should be made to note 13 of assets for information on deferred tax liabilities.

Section 10 - Other liabilities - Caption 100

10.1 Other liabilities: breakdown

	31/12/2016	31/12/2015
Tax liabilities, withholding taxes and other amounts to be paid	21,288	18,035
Cheques, cheque truncation flows to be credited	11,314	11,302
Securities, currency and premium transactions paid for options to be credited	1,757	2,162
Due to employees	14,972	15,060
Other liabilities for expenses, commissions and interest to be paid	53,259	33,678
Prepaid debit cards	56,769	54,481
Currency differences on portfolio transactions	17,202	1,546
BIREL, transfers, payment flows to be credited, e-money	123,394	314,953
Sundry and residual items	7,671	4,767
Total	**307,626**	**455,984**

Section 11 - Post-employment benefits - Caption 110

11.1 Post-employment benefits: changes

	31/12/2016	31/12/2015
A. Opening balance	**12,149**	**12,824**
B. Increases		
B.1 Accruals	124	150
B.2 Other increases	13	8
C. Decreases		
C.1 Payments	382	431
C.2 Other decreases	481	402
D. Closing balance	11,422	12,149
Total	11,422	12,149

11.2 - Other information

Main demographic and actuarial assumptions used to measure post-employment benefits at 31 December 2016	
Mortality among aged pensioners	Rates relating to Italians broken down by age and gender, published by ISTAT in 2000 and reduced by 25%
Mortality among total and permanent disability pensioners	Rates inferred from the invalidity tables currently used by the reinsurance practice, broken down by age and gender
advances	1.76%
turnover	1.86%
Retirement	Rate based on the satisfaction of the first requirement for the mandatory general insurance
Inflation	1.50%
Annual discount rate	1.37%, inferred from the breakdown of interest rate by maturity bootstrapped from the swap rate curve at the reporting date (Source: Il Sole 24 ore) and established with reference to the bank's liabilities due after an average period of 14 years.

Sensitivity analysis

As required by IAS 19, the bank carried out a sensitivity analysis of the liability for post-employment benefits with reference to the most significant actuarial assumptions. It aimed at showing how much the carrying amount of the liability would be affected by reasonably possible variations in each of the assumptions. Specifically, the following table sets out the change in the liability for post-employment benefits assuming that the main assumptions used increase or decrease.

€'000		Change in post-employment benefits (amount)	Change in post-employment benefits (percentage)
Change in actuarial assumptions:			
- Discount rate:			
	-0.50%	13,621	6.22%
	0.50%	12,090	-5.73%
- Employee turnover			
	-0.25%	12,897	0.57%
	0.25%	12,755	-0.54%

Section 12 - Provisions for risks and charges - Caption 120

12.1 Provisions for risks and charges: breakdown

	31/12/2016	31/12/2015
1. Internal pension funds	940	978
2. Other provisions for risks and charges	22,621	21,931
Total	**23,561**	**22,909**

12.2 Provisions for risks and charges: changes

	Pension plans	Other provisions	Total
A. Opening balance	**978**	**21,931**	**22,909**
B. Increases			
B.1 Accruals	-	2,123	2,123
B.2 Discounting	30	-	30
B.3 Changes due to variations in discount rate	-	-	-
B.4 Other increases	-	-	-
C. Decreases			
C.1 Utilisations	68	1,432	1,500
C.2 Changes due to variations in discount rate	-	-	-
C.3 Other decreases	-	-	-
D. Closing balance	**940**	**22,621**	**23,561**

12.3 Defined benefit internal pension plans

1. Description and related risks

The liability for defined benefit internal pension plans includes the accruals made for the bank's obligation to its former employees. The estimated liability amounts to €940 thousand at the reporting date.

2. Changes in defined benefit plan liabilities (assets) and related repayment rights

The present value of the defined benefit liability at 31 December 2015 amounts to €978 thousand. The bank paid benefits totalling €68 thousand during the year. The other changes relate to discounting costs.

12.4 - Provisions for risks and charges - Other provisions

The other provisions mainly relate to claims/litigation with respect to which an outlay of resources by the bank is deemed probable. They also include accruals for donations.
The decrease is a result of the elimination of existing risks, partly due to settlement of the related costs and partly to the release of previously set-up provisions.

Section 14 - Equity - Captions 130, 150, 160, 170, 180, 190 and 200

14.1 "Share capital" and "Treasury shares": breakdown

	31/12/2016	31/12/2015
1. Share capital	42,557	42,557
2. Share premium	148,242	148,242
3. Reserves	1,712,313	488,013
4. Treasury shares (-)	(32)	(32)
5. Valuation reserves	62,562	69,020
6. Profit for the year	84,164	62,246
Total	**2,049,806**	**810,046**

The increase of the Caption "Net Equity" is mainly due to merger transaction described above that has resulted in the recognition of a merger surplus of Euro 1,252,417 thousand.

14.2 Share capital - number of shares: changes

	Ordinary	Other
A. Opening balance		
- fully paid-in	14,185,790	
- not fully paid-in		
A.1 Treasury shares (-)	75,191	
A.2 Outstanding shares: opening balance	**14,110,599**	
B. Increases		
B.1 New issues		
- against consideration:	-	
- business combinations		
- bond conversions		
- exercise of warrants		
- other	-	
- bonus issues:		
- to employees		
- to directors		
- other		
B.2 Sale of treasury shares		
B.3 Other increases		
C. Decreases		
C.1 Cancellations		
C.2 Repurchases of treasury shares		
C3 Disposals of equity investments		
C.4 Other decreases		
D. Outstanding shares: closing balance	**14,110,599**	
D.1 Treasury shares (+)	75,191	
D.2 Closing balance	14,185,790	
- fully paid-in	14,185,790	
- not fully paid-in		

The outstanding and fully paid-in shares number 14,185,790, while treasury shares in portfolio amount to 75,191.

14.4 Income-related reserves: other information

	31/12/2016	31/12/2015
Legal reserve	20,000	20,000
Statutory reserves	-	-
Other reserves	1,692,313	468,013
Total	**1,712,313**	**488,013**

Possible utilisation of reserves

	31/12/2016	31/12/2015	Utilisation
Legal	20,000	20,000	a
Share premium reserve	148,242	148,242	a,b,c
Valuation reserves	46,219	46,219	a,b,c
Fair value reserve	17,702	24,488	d
Actuarial reserve	-1,358	-1,687	
Reserve for treasury shares in portfolio	32	32	e
Unrestricted reserve for treasury shares	746	746	a,b,c
Income-related reserves as per Law no. 289/2002	10,848	10,848	a,b,c
Goodwill arising on merger	1,293,617	41,200	a,b,c
Other income-related reserves	387,070	415,187	a,b,c
Total reserves	**1,923,117**	**705,275**	

a = to cover losses
b = dividends
c = capital increases
d = undistributable until realised
e = unusuable until sale of treasury shares in portfolio

14.6 Other information

1. Guarantees and commitments

	31/12/2016	31/12/2015
1) Financial guarantees issued	110,351	108,553
a) Banks	322	1,385
b) Customers	110,029	107,168
2) Commercial guarantees issued	3,910	4,101
a) Banks	83	83
b) Customers	3,827	4,018
3) Irrevocable commitments to disburse funds	110,930	252,231
a) Banks	1,247	9,608
i) certain use	1,247	9,608
ii) uncertain use	-	-
b) Customers	109,683	242,623
i) certain use	2,934	125,220
ii) uncertain use	106,749	117,403
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets pledged as collateral for third party commitments	-	-
6) Other commitments	-	-
Total	**225,191**	**364,885**

2. Assets pledged as guarantee for liabilities and commitments

	31/12/2016	31/12/2015
1. Financial assets held for trading	-	-
2. Financial assets at fair value through profit or loss	-	-
3. Available-for-sale financial assets	98.288	180.834
4. Held-to-maturity investments	-	-
5. Loans and receivables with banks	-	-
6. Loans and receivables with customers	-	-
7. Property, equipment and investment property	-	-

Assets pledged as guarantee are mainly government bonds securing the bank's operations in the relevant markets.

4. Management and trading on behalf of third parties

	31/12/2016	31/12/2015
1. Execution of customer orders		
a) Purchases		
1. settled	21,844,663	22,616,234
2. unsettled		
b) Sales		
1. settled	22,076,792	22,878,984
2. unsettled	-	-
2. Asset management		
a) individual		
b) collective		
3. Securities custody and administration		
a) third party securities held as part of depository bank services (excluding asset management)	48,247,564	45,353,130
1. securities issued by the reporting entity	-	-
2. other securities	48,247,564	45,353,130
b) third party securities on deposit (excluding asset management): other	72,051,407	79,421,757
1. securities issued by the reporting entity	39,694	39,648
2. other securities	72,011,713	79,382,109
c) third party securities deposited with third parties	103,822,347	108,106,682
d) securities owned by the bank deposited with third parties	3,116,743	2,617,499
4. Order collection and transmission		
a) Purchases		
1. settled	1,277,278	1,680,054
2. unsettled	-	-
b) Sales		
1. settled	1,372,114	1,666,266
2. unsettled	-	-
5. Placement of secured and unsecured securities		
a) Placement of unsecured securities	506,738	627,060
b) Placement of secured securities	3,803	28,029

Part C - NOTES TO THE INCOME STATEMENT

Section 1 - Interest - Captions 10 and 20

1.1 Interest and similar income: breakdown

	Debt instruments	Financing	Other assets	31/12/2016	31/12/2015
1. Financial assets held for trading	396	-	-	396	445
2. Available-for-sale financial assets	26,240	-	-	26,240	44,175
3. Held-to-maturity investments	337	-	-	337	608
4. Loans and receivables with banks	188	4,793	1,327	6,308	1,896
5. Loans and receivables with customers	-	15,385	-	15,385	17,360
6. Financial assets at fair value through profit or loss	-	-	-	-	-
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	6,224	6,224	334
Total	**27,161**	**20,178**	**7,551**	**54,890**	**64,818**

1.4 Interest and similar expense: breakdown

	Liabilities	Securities	Other	31/12/2016	31/12/2015
1. Due to central banks	-	-	-	-	104
2. Due to banks	2,897	-	-	2,897	1,923
3. Due to customers	1,873	-	-	1,873	1,240
4. Securities issued	-	-	-	-	-
5. Financial liabilities held for trading	41	-	-	41	41
6. Financial liabilities at fair value through profit or loss	-	-	-	-	-
7. Other liabilities and provisions	-	-	6,065	6,065	92
8. Hedging derivatives	-	-	-	-	-
Total	**4,811**	**-**	**6,065**	**10,876**	**3,400**

The increase is mainly due to negative interest rate applied on the funds invested by the bank.

Section 2 - Fees and commissions - Captions 40 and 50

2.1 Fee and commission income: breakdown

	31/12/2016	31/12/2015
a) guarantees issued	177	133
b) credit derivatives	-	-
c) management, brokerage and consultancy services:	-	-
1. trading in financial instruments	10,452	11,612
2. foreign currency transactions	-	-
3. asset management	-	-
3.1. individual	-	-
3.2. collective	-	-
4. securities custody and administration	4,889	4,214
5. depository services	48,779	48,968
6. securities placement	1,861	3,051
7. order collection and transmission	1,618	2,304
8. consultancy services	207	144
8.1 concerning investments		
8.2 concerning financial structure	207	144
9. distribution of third party services	-	-
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other products	-	-
d) collection and payment services	61,519	59,183
e) servicing services for securitisations	-	-
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) keeping and management of current accounts	-	-
j) other services	3,945	3,209
Total	**133,448**	**132,818**

2.2 Fee and commission income: distribution channels of products and services

	31/12/2016	31/12/2015
a) bank branches:		
1. asset management		
2. securities placement		
3. third party services and products		
b) off premises:		
1. asset management		
2. securities placement		
3. third party services and products		
c) other distribution channels:		
1. asset management		
2. securities placement	1,861	3,051
3. third party services and products		

2.3 Fee and commission expense: breakdown

	31/12/2016	31/12/2015
a) guarantees received	50	46
b) credit derivatives	-	-
c) management and brokerage services:		
1. trading in financial instruments	343	400
2. foreign currency transactions	53	64
3. asset management:	-	-
3.1 own portfolio	-	-
3.2 third party portfolios	-	-
4. securities custody and administration	5,780	5,649
5. placement of financial instruments	1,695	2,673
6. securities settlement	1,924	2,250
7. off-premises distribution of financial instruments, products and services	-	-
d) collection and payment services	20,631	20,393
e) other services	3,560	3,214
Total	**34,036**	**34,689**

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

	31/12/2016		31/12/2015	
	Dividends	Income from OEIC units	Dividendi	Proventi da quote di O.I.C.R.
A. Financial assets held for trading	4		12	
B. Available-for-sale financial assets	419		210	
C. Financial assets at fair value through profit or loss	-		-	
D. Equity investments	95,543		42,209	
Total	**95,966**	**-**	**42,431**	**-**

The increase in the caption “Dividend” is mainly due to an extraordinary dividend distributed by Equens SE.

Section 4 - Net trading income - Caption 80

4.1 Net trading income: breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income [(A+B) - (C+D)]
1. Financial assets held for trading					
1.1 Debt instruments	46	3,674	95	518	**3,107**
1.2 Equity instruments	-	197	-	46	**151**
1.3 OEIC units	1	1	-	3	**- 1**
1.4 Financing					**-**
1.5 Other					**-**
2. Financial liabilities held for trading					**-**
2.1 Debt instruments	8	-	1	-	**7**
2.2 Liabilities					**-**
2.3 Other	-		2		**- 2**
3. Other financial assets and liabilities: net exchange rate gains					**316**
4. Derivatives					
4.1 Financial derivatives:					
- On debt instruments and interest rates					**-**
- On equity instruments and equity indexes	-	8,927	-	8,272	**655**
- On currencies and gold					**-**
- Other					**-**
4.2 Credit derivatives					**-**
Total	**55**	**12,799**	**98**	**8,839**	**4,234**

Section 8 - Net impairment losses - Caption 130

8.2 Net impairment losses on AFS financial assets: breakdown

	Impairment losses (1)		Reversals of impairment losses (2)		31/12/2016 (3)=(1)–(2)	31/12/2016 (3)=(1)–(2)
	Individual		Individual			
	Derecognition	Other	A	B		
A. Debt instruments						
B. Equity instruments		700			700	
C. OEIC units		1,512			1,512	227
D. Financing to banks						
E. Financing to customers						
F. Total	**-**	**2,212**	**-**	**-**	**2,212**	**227**

Key
A = from interest
B = other reversals

8.3 Net impairment losses on held-to-maturity investments: breakdown

	Impairment losses (1)			Reversals of impairment losses (2)				31/12/2016	31/12/2015
	Individual		Collective	Individual		Collective			
	Derecognition	Other		A	B	A	B		
A. Debt instruments		-						-	4,478
B. Financing to banks									
C. Financing to customers									
D. Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,478**

Key
A = interest
B = other reversals

Section 9 - Administrative expenses - Caption 150

9.1 Personnel expense: breakdown

	31/12/2016	31/12/2015
1) Employees	84,605	72,321
a) wages and salaries	63,142	51,542
b) social security charges	14,753	13,656
c) post-employment benefits	390	359
d) pension costs	167	251
e) accrual for post-employment benefits	124	150
f) accrual for pension and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:		
- defined contribution plans	3,934	4,005
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	2,095	2,358
2) Other personnel	2,137	781
3) Directors and statutory auditors	1,130	1,529
4) Retired personnel	-	-
5) Cost recoveries for employees seconded to other companies	-704	-764
6) Cost reimbursements for third party employees seconded to the bank	-	38
7) Other personnel expense	-	-
Total	**87,168**	**73,905**

9.2 Average number of employees per category

	31/12/2016	31/12/2015
a) managers	35	35
b) junior managers	368	360
c) other employees	417	430

9.3 Defined benefit internal pension plans: costs and revenue

The defined benefit internal pension plan currently only covers former employees as the present fund is a defined contribution benefit plan.

Costs recognised in profit or loss for the defined benefit plan (mainly interest expense) amount to €30.0 thousand.

There are no plan assets.

9.5 Other administrative expenses: breakdown

	31/12/2016	31/12/2015
- data processing	36,832	40,635
- post office, valuables transportation and couriers	1,127	981
- external services	10,219	9,555
- interbank network traffic	8,982	8,464
- IT connections and automation costs	3,923	3,920
- access to markets	2,145	2,214
- professional services	28,912	10,446
- agents' commissions	1,446	1,757
- bank draft books	124	170
- maintenance and lease	11,045	9,608
- building running costs, leases, heating and lighting	5,115	5,231
- stationery and printed matter	225	237
- insurance	453	590
- telegraph, telephone and telex	548	599
- membership fees	1,448	1,307
- surveillance and cleaning	755	861
- other	7,207	9,308
- taxes and duties	2,493	2,779
Total	**123,000**	**108,662**

Section 10 - Net accruals to provisions for risks and charges - Caption 160

10.1 Net accruals to provisions for risks and charges: breakdown

	31/12/2016	31/12/2015
Accruals to provisions	1,519	1,074
Total	**1,519**	**1,074**

Section 11 - Depreciation and net impairment losses on property, equipment and investment property - Caption 170

11.1 Depreciation and net impairment losses on property, equipment and investment property: breakdown

	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Carrying amount (a + b – c)
A. Property, equipment and investment property				
A.1 Owned				
- Property and equipment	803			**803**
- Investment property	1,413			**1,413**
A.2 Under finance lease				
- Property and equipment				**-**
- Investment property				**-**
Total	**2,217**	**-**	**-**	**2,217**

Section 12 - Amortisation and net impairment losses on intangible assets - Caption 180

12.1 Amortisation and net impairment losses on intangible assets: breakdown

	Amortisation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Carrying amount (a + b – c)
A. Intangible assets				-
A.1 Owned				-
- Generated internally				-
- Other	15,153	-		**15,153**
A.2 Under finance lease				-
Total	**15,153**	**-**	**-**	**15,153**

Section 13 - Other operating expense and income - Caption 190

13.1 Other operating expense: breakdown

	31/12/2016	31/12/2015
Other costs	2,180	1,780
Transfer of revenue from services	4,046	3,490
Total	**6,226**	**5,270**

13.2 Other operating income: breakdown

	31/12/2016	31/12/2015
Lease income	1,546	1,556
Services	74,027	71,833
Recoveries of stamp duties from customers and post office expenses	215	300
Other income	3,028	1,984
Total	**78,816**	**75,673**

Section 14 - Share of profits of investees - Caption 210

14.1 Share of profits or losses: breakdown

	31/12/2016	31/12/2015
A. Income		
1. Fair value gains		
2. Gains on sales	-	-
3. Reversals of impairment losses		
4. Other income		
B. Costs		
1. Fair value losses	22,035	
2. Impairment losses		
3. Losses on sales		
4. Other costs		
Net profits (losses)	**-22,035**	**-**

The caption shows the impairment of the equity investment in Equens SE, connected to the distribution of an extraordinary dividend by the company, recorded before the transfer of Equens shares in the AFS portfolio.

Section 17 - Gains (losses) on sales of investments - Caption 240

17.1 Net gains on sales of investments: breakdown

	31/12/2016	31/12/2015
A. Property		
- Gains on sales	-	-
- Losses on sales	-	-
B. Other assets		
- Gains on sales	-	8
- Losses on sales	-	2
Net gains	**-**	**6**

Section 18 - Income taxes - Caption 260

18.1 Income taxes: breakdown

	31/12/2016	31/12/2015
1. Current taxes	21,310	-11,250
2. Change in current taxes from previous years (+/-)"	-564	664
3. Decrease in current taxes for the year (+)"		38
3. bis Decrease in current taxes for the year due to tax assets as per Law no. 214/2011 (+)"		
4. Change in deferred tax assets (+/-) "	583	378
5. Change in deferred tax liabilities (+/-) "	-78	14
6. Tax expense for the year (-)"	21,251	-10,156

The caption "Decrease in current taxes for the year", mainly include the ACE effect arising from the reverse merger with Mercury Italy S.r.l.

18.2 Reconciliation between the theoretical and effective IRES tax expense

IRES	31/12/2016	31/12/2015
Reconciliation between the theoretical and effective tax rate		
Theoretical tax rate	27.5%	27.5%
Tax exempt income and other decreases	-82.7%	-20.8%
Non-deductible costs	16.7%	2.4%
Effective tax rate	-38.5%	9.1%

18.3 Reconciliation between the theoretical and effective IRAP tax expense

IRAP	31/12/2016	31/12/2015
Reconciliation between the theoretical and effective tax rate:		
Theoretical tax rate	5.57%	5.57%
Tax exempt income and other decreases	-8.2%	-2.8%
Non-deductible costs	7.4%	2.2%
Effective tax rate	4.7%	4.9%

Part D – Comprehensive income

Breakdown of comprehensive income

		Gross amount	Income tax	Net amount
10.	Profit for the year	X	X	84,163,727
Items that will not be reclassified subsequently to profit or loss				
20	Property, equipment and investment property			
30	Intangible assets			
40	Defined benefit plans	453,294	-124,670	328,638
50	Non-current assets held for sale			
60	Share of valuation reserves of equity-accounted investees			
Items that will be reclassified subsequently to profit or loss				
70	Hedges of investments in foreign operations:			
	a) fair value gains (losses)			
	b) reclassification to profit or loss			
	c) other changes			
80	Exchange rate gains (losses):			
	a) unrealised gains (losses)			
	b) reclassification to profit or loss			
	c) other changes			
90	Cash flow hedges:			
	a) fair value gains (losses)			
	b) reclassification to profit or loss			
	c) other changes			
100	Available-for-sale financial assets:			
	a) fair value gains (losses)	-10,139,479	3,353,126	-6,786,353
	b) reclassification to profit or loss:			
	- impairment losses			
	- gains/losses on sales			
	c) other changes			
110	Non-current assets held for sale:			
	a) fair value gains (losses)			
	b) reclassification to profit or loss			
	c) other changes			
120	Share of valuation reserves of equity-accounted investees:			
	a) fair value gains (losses)			
	b) reclassification to profit or loss:			
	- impairment losses			
	- gains/losses on sales			
	c) other changes			
130	**Other comprehensive expense**	**-9,686,185**	**3,228,470**	**-6,457,715**
140	**Comprehensive income (expense) (captions 10 + 130)**	**-9,686,185**	**3,228,470**	**77,706,012**

Part E - Risks and related hedging policies

Introduction

This part of the Notes provides the quantitative information on risks relative to ICBPI parent company. For qualitative methods on the risk management and monitoring information on the organization of the Bank's risk management, on its processes and key functions, risk culture within the Bank and on the ways in which it is guaranteed diffusion, the main risks arising from the business model of the Bank, the risk appetite and the way in which these risks are managed, the use of stress tests under the governance of risk strategies, see this exhibition in Part E of the Notes consolidated.

Section 1 - Credit Risk

A.1 IMPAIRMED AND PERFORMING LOANS: CARRYING AMOUNT, IMPAIRMENT LOSSES, PERFORMANCE, BUSINESS AND GEOGRAPHICAL DISTRIBUTION

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

	Non-performing loans	Probable default	Impaired past due loans	Unpaired past due loans	Other unimpaired exposures	Total
1. Available-for-sale financial assets	-	-	-	-	3,169,903	**3,169,903**
2. Held-to-maturity investments	-	-	-	-	15,933	**15,933**
3. Loans and receivables with banks	-	-	-	-	739,377	**739,377**
4. Loans and receivables with customers	391	-	-	1	1,579,755	**1,580,147**
5. Financial assets at fair value through profit or loss	-	-	-	-	-	**-**
6. Financial assets held for sale	-	-	-	-	-	**-**
Total at 31/12/2016	**391**	**-**	**-**	**1**	**5,504,969**	**5,505,360**
Total at 31/12/2015	**391**	**-**	**-**	**-**	**5,859,693**	**5,860,084**

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross amount and carrying amount)

	Impaired assets			Unimpaired assets			Total (carrying amount)
	Gross amount	Individual impairment	Carrying amount	Gross amount	Collective impairment	Carrying amount	
1. Available-for-sale financial assets	-	-	-	3,169,903	-	3,169,903	**3,169,903**
2. Held-to-maturity investments	-	-	-	15,933	-	15,933	**15,933**
3. Loans and receivables with banks	-	-	-	739,377	-	739,377	**739,377**
4. Loans and receivables with customers	2,139	1,748	391	1,579,756	-	1,579,756	**1,580,147**
5. Financial assets at fair value through profit or loss	-	-	-	-	-	-	**-**
6. Financial assets held for sale	-	-	-	-	-	-	**-**
Total at 31/12/2016	**2,139**	**1,748**	**391**	**5,504,970**	**-**	**5,504,970**	**5,505,360**
Total at 31/12/2015	**2,139**	**1,748**	**391**	**5,859,693**	**-**	**5,859,693**	**5,860,084**

	Assets with poor credit quality		Other assets
	Cumulated impairment losses	Carrying amount	Carrying amount
1. Financial assets held for trading			13,153
2. Hedging derivatives			-
Total at 31/12/2016			**13,153**
Total at 31/12/2015			**18,693**

A.1.3 Loans and receivables with banks on and off-statement of financial position: gross amounts, carrying amounts and past due brackets

	Gross amount					Individual impairment	Collective impairment	Carrying amount
	Impaired assets				Unimpaired assets			
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	After 1 year				
A. ON-STATEMENT OF FINANCIAL POSITION								
a) Non-performing loans	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-
b) Probable defaults	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-
c) Impaired past due loans	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-
d) Unimpaired past due loans	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-
e) Other unimpaired exposures	-	-	-	-	765,522	-	-	765,522
- including: negotiated exposures	-	-	-	-	-	-	-	-
TOTAL A	**-**	**-**	**-**	**-**	**765,522**	**-**	**-**	**765,522**
B. OFF-STATEMENT OF FINANCIAL POSITION								
a) Impaired	-	-	-	-	-	-	-	-
b) Unimpaired	-	-	-	-	2,808	-	-	2,808
TOTAL B	**-**	**-**	**-**	**-**	**2,808**	**-**	**-**	**2,808**
TOTAL A + B	**-**	**-**	**-**	**-**	**768,330**	**-**	**-**	**768,330**

A.1.6 Loans and receivables with customers on and off-statement of financial position: gross amounts, carrying amounts and past due brackets

	Gross amount					Individual impairment	Collective impairment	Carrying amount
	Impaired assets				Unimpaired assets			
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	After 1 year				
A. ON-STATEMENT OF FINANCIAL POSITION								
a) Non-performing loans	-	-	-	2,139	-	1,748	-	391
- including: negotiated exposures	-	-	-	-	-	-	-	-
b) Probable defaults	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-
c) Impaired past due loans	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-
d) Unimpaired past due loans	-	-	-	-	1	-	-	1
- including: negotiated exposures	-	-	-	-	-	-	-	-
e) Other unimpaired exposures	-	-	-	-	4,750,853	-	-	4,750,853
- including: negotiated exposures	-	-	-	-	-	-	-	-
TOTAL A	**-**	**-**	**-**	**2,139**	**4,750,853**	**1,748**	**-**	**4,751,244**
B. OFF-STATEMENT OF FINANCIAL POSITION								
a) Impaired	-	-	-	-	-	-	-	-
b) Other	-	-	-	-	458,009	-	-	458,009
TOTAL B	**-**	**-**	**-**	**-**	**458,009**	**-**	**-**	**458,009**
TOTAL A + B	**-**	**-**	**-**	**2,139**	**5,208,863**	**1,748**	**-**	**5,209,253**

A.1.7 On-statement of financial position loans and receivables with customers: gross impaired positions

	Non-performing loans	Probable defaults	Impaired past due loans
A. Gross opening balance	**2,139**	**-**	**-**
- including: positions transferred but not derecognised			
B. Increases			
B.1 transfers from performing loans	-	-	-
B.2 transfers from other impaired	-	-	-
loan categories	-	-	-
B.3 Other increases	-	-	-
C. Decreases	**-**	**-**	**-**
C.1 transfers to performing loans	-	-	-
C.2 derecognitions	-	-	-
C.3 collections	-	-	-
C.4 losses on sales	-	-	-
C.4 bis losses on sales			
C.5 transfers to other impaired	-	-	-
loan categories	-	-	-
C.6 other decreases	-	-	-
D. Gross closing balance	**2,139**	**-**	**-**
- including: positions transferred but not derecognised			

A.1.8 On-statement of financial position loans and receivables with customers: changes in impaired positions

	Non-performing loans		Probable defaults		Impaired past due loans	
	Total	Including: negotiated exposures	Total	Including: negotiated exposures	Total	Including: negotiated exposures
A. Opening balance	**1,748**					
- including: positions transferred but not derecognised						
B. Increases						
B.1 impairment losses	-					
B.1 bis losses on sales						
B.2 transfers from other impaired exposure categories						
B.3 other increases						
C. Decreases						
C.1 fair value gains						
C.2 reversals of impairment losses due to collection						
C.2 bis gains on sales						
C.3 derecognitions	-					
C.4 transfers to other impaired exposure categories						
C.5. other decreases						
D. Closing balance	**1,748**					
- including: positions transferred but not derecognised						

A.2 CLASSIFICATION OF EXPOSURES USING EXTERNAL AND INTERNAL RATINGS

A.2.1 Breakdown of credit exposure on and off-statement of financial position by external rating classes

	External rating class						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. On-statement of financial position	-	-	-	-	-	-	5,516,766	5,516,766
B. Derivatives	-	-	-	-	-	-		-
B.1 Financial derivatives	-	-	-	-	-	-	1,748	1,748
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees issued	-	-	-	-	-	-	113,940	113,940
D. Commitments to disburse funds	-	-	-	-	-	-	110,923	110,923
E. Other	-	-	-	-	-	-	234,207	234,207
Total	**-**	**-**	**-**	**-**	**-**	**-**	**5,977,584**	**5,977,584**

A.2.2 Breakdown of credit exposure on and off-statement of financial position by internal rating classes

	Internal rating class						Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	
A. On-statement of financial position						5,516,766	5,516,766
B. Derivatives							
B.1 Financial derivatives						1,748	1,748
B.2 Credit derivatives						-	-
C. Guarantees issued						113,940	113,940
D. Commitments to disburse funds						110,923	110,923
E. Other						234,207	234,207
Total						**5,977,584**	**5,977,584**

A.3 BREAKDOWN OF GUARANTEED EXPOSURE BY TYPE OF GUARANTEE

A.3.1 Guaranteed loans and receivables with banks

	Net amount	Collateral (1)				Personal guarantees (2)									Total (1+2)
						Credit derivatives					Endorsement credits				
							Other derivatives								
		Mortgaged property	Property under finance lease	Securities	Other collateral	CLN	Government and central banks	Other gov. agencies	Banks	Other	Government and central banks	Other gov. agencies	Banks	Other	
1. On-statement of financial position guaranteed loans:															
1.1. fully guaranteed	231,707	-	-	231,707	-	-		-	-		-	-	-	-	231,707
- including: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. partly guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- including: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Off-statement of financial position guaranteed loans:															
2.1. fully guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- including: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. partly guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- including: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Guaranteed loans and receivables with customers

	Net amount	Collateral (1)				Personal guarantees (2)										Total (1+2)
						Credit derivatives					Endorsement credits					
							Other derivatives									
		Mortgaged property	Property under finance lease	Securities	Other collateral	CLN	Government and central banks	Other gov. agencies	Banks	Other	Government and central banks	Other gov. agencies	Banks	Other		
1. Guaranteed loans:																
1.1. fully guaranteed	207,517	-	-	207,510	-	-	-	-	-	-	-	-	-	-		207,510
- including: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
1.2. partly guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
- including: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
2. Off-statement of financial position guaranteed loans:																
2.1. fully guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
- including: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
2.2. partly guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
- including: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURE

B.1 Breakdown of loans and receivables with customers on and off-statement of financial position by business segment (carrying amount)

	Governments and central banks			Other government agencies			Financial companies		
	Carrying amount	Individual impairment	Collective impairment	Carrying amount	Individual impairment	Collective impairment	Carrying amount	Individual impairment	Collective impairment
A. On-statement of financial position									
A.1 Non-performing loans	-	-	-	-	-	-	391	1,491	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
A.2 Probable defaults	-	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
A.3 Impaired past due loans	-	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	3,170,093	-	-	93	-	-	1,577,597	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
TOTAL A	**3,170,093**	**-**	**-**	**93**	**-**	**-**	**1,577,987**	**1,491**	**-**
B. Off-statement of financial position									
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-
B.2 Probable defaults	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	2,199	-	-	302	-	-	220,002	-	-
TOTAL B	**2,199**	**-**	**-**	**302**	**-**	**-**	**220,002**	**-**	**-**
TOTAL (A + B) at 31/12/2016	**3,172,292**	**-**	**-**	**395**	**-**	**-**	**1,797,989**	**1,491**	**-**
TOTAL (A + B) at 31/12/2015	**2,593,837**	**-**	**-**	**181**	**-**	**-**	**2,651,898**	**1,491**	**-**

	Insurance companies			Non-financial companies			Other		
	Carrying amount	Individual impairment	Collective impairment	Carrying amount	Individual impairment	Collective impairment	Carrying amount	Individual impairment	Collective impairment
A. On-statement of financial position									
A.1 Non-performing loans	-	-	-	-	257	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
A.2 Probable defaults	-	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
A.3 Impaired past due loans	-	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	123	-	-	766	-	-	2,182	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
TOTAL A	**123**	**-**	**-**	**766**	**257**	**-**	**2,182**	**-**	**-**
B. Off-statement of financial position									
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-
B.2 Probable defaults	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	30	-	-	1,270	-	-	-	-	-
TOTAL B	**30**	**-**	**-**	**1,270**	**-**	**-**	**-**	**-**	**-**
TOTAL (A + B) at 31/12/2016	**153**	**-**	**-**	**2,036**	**257**	**-**	**2,182**	**-**	**-**
TOTAL (A + B) at 31/12/2015	**109,365**	**-**	**-**	**32,187**	**257**	**-**	**2,277**	**-**	**-**

B.2 Breakdown of loans and receivables with customers on and off-statement of financial position by geographical segment (carrying amount)

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment
A. On-statement of financial position										
A.1 Non-performing loans	391	1,748	-	-	-	-	-	-	-	-
A.2 Probable defaults	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due loans	-	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	4,737,091	-	13,577	-	185	-	-	-	-	-
TOTAL A	**4,737,482**	**1,748**	**13,577**	**-**	**185**	**-**	**-**	**-**	**-**	**-**
B. Off-statement of financial position										
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Probable defaults	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	223,178	-	-	-	-	-	-	-	624	-
TOTAL B	**223,178**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**624**	**-**
TOTAL A + B at 31/12/2016	**4,960,660**	**1,748**	**13,577**	**-**	**185**	**-**	**-**	**-**	**624**	**-**
TOTAL A + B at 31/12/2015	**5,380,867**	**1,748**	**6,820**	**-**	**2,055**	**-**	**-**	**-**	**3**	**-**

B.3 Breakdown of loans and receivables with banks on and off-statement of financial position by geographical segment (carrying amount)

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
A. On-statement of financial position										
A.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
A.2 Probable defaults	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due loans	-	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	713,360	-	38,092	-	8,004	-	5,303	-	763	-
TOTAL A	**713,360**	**-**	**38,092**	**-**	**8,004**	**-**	**5,303**	**-**	**763**	**-**
B. Off-statement of financial position										
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Probable defaults	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	1,587	-	1,221	-	-	-	-	-	-	-
TOTAL B	**1,587**	**-**	**1,221**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL A + B at 31/12/2016	**714,947**	**-**	**39,315**	**-**	**8,004**	**-**	**5,303**	**-**	**763**	**-**
TOTAL A + B at 31/12/2015	**768,257**	**-**	**68,554**	**-**	**8,118**	**-**	**6,055**	**-**	**2,931**	**-**

B.4 Large exposures

	31/12/2016	31/12/2015
a) Carrying amount	10,023,393	7,464,060
b) Weighted amount	-	256,117
c) Number	4	9

C. SECURITISATIONS

ICBPI has not undertaken these types of transaction.

D. DISCOSURE ON STRUCTURED ENTITIES (OTHER THAN SECURITISATION VEHICLES)

	Recognised assets	Total assets (A)	Recognised liabilities	Total liabilities (B)	Carrying amount (C = B-A)	Maximum exposure at risk to loss (D)	Difference between exposure at risk to loss and carrying amount (E = D-C)
2.OEIC units	Available-for-sale financial assets	39,765	-	-	39,765	135,000	95,235

E. TRANSFERS

ICBPI has not performed any transfers

F. CREDIT RISK MEASUREMENT MODELS

The bank does not have internal models to measure credit risk given its profile.

SECTION 2 - MARKET RISK

2.1 INTEREST RATE AND PRICE RISK - REGULATORY TRADING BOOK

QUANTITATIVE DISCLOSURE

1. Regulatory trading book: breakdown by residual maturity (repricing date) of on-statement of financial position financial assets and liabilities and derivatives

Currency: Euro

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets								
1.1 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	221	5,168	841	929	3,175	588	2	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities								
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	64	-	-	-	50	-	1	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	609	4,480	1,474	128	869	681	89	-
+ short positions	673	4,519	1,474	95	944	529	97	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	213,085	-	-	-	-	-	-
+ short positions	-	1,084,117	-	-	-	-	-	-

Currency: other

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets								
1.1 Debt instruments								
- with early repayment option	66	-	-	-	-	13	-	-
- other	12	-	-	2	6	153	89	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities								
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	30	-	-	-	29	-	235	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	1	40	-	-	-	-	-
+ short positions	-	43	1	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	1,079,995	-	-	-	-	-	-
+ short positions	-	214,528	-	-	-	-	-	-

2.2 INTEREST RATE AND PRICE RISKS - BANKING BOOK

QUANTITATIVE DISCLOSURE

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

Currency: Euro

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets								
1.1 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	595,762	98,890	944,928	1,011	1,549,299	-	-	-
1.2 Financing to banks	142,706	547,864	-	-	-	-	-	-
1.3 Financing to customers								
- current accounts	1,220,881	-	-	-	-	-	-	-
- other financing								
- with early repayment option	-	-	-	-	-	-	-	-
- other	132,330	207,695	174	335	1,356	-	-	-
2. Liabilities								
2.1 Due to customers								
- current accounts	4,398,579	-	-	-	-	-	-	-
- other payables								
- with early repayment option	-	-	-	-	-	-	-	-
- other	350,359	231,676	-	-	-	-	-	-
2.2 Due to banks								
- current accounts	732,755	-	-	-	-	-	-	-
- other payables	199,227	-	-	-	-	-	-	-
2.3 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions								
+ long positions	-	-	-	40,000	-	-	-	-
+ short positions	40,000	-	-	-	-	-	-	-

Currency: other

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets								
1.1 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	43,891	513	101	248	-	-	-	-
1.3 Financing to customers								
- current accounts	16,984	-	-	-	-	-	-	-
- other financing								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Liabilities								
2.1 Due to customers								
- current accounts	758,592	-	-	-	-	-	-	-
- other payables								
- with early repayment option	-	-	-	-	-	-	-	-
- other	356	-	-	-	-	-	-	-
2.2 Due to banks								
- current accounts	81,453	-	-	-	-	-	-	-
- other payables	-	86,771	-	-	-	-	-	-
2.3 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

2.3 CURRENCY RISK

QUANTITATIVE DISCLOSURE

1. Breakdown of assets, liabilities and derivatives by currency

	Currency					
	US dollar	**Yen**	**Pound sterling**	**Swiss franc**	**Canadian dollar**	**Other currencies**
A. Financial assets						
A.1 Debt instruments	347	-	-	-	-	-
A.2 Equity instruments	1	-	-	-	-	155
A.3 Financing to banks	10,155	6,852	5,875	1,829	1,808	18,233
A.4 Financing to customers	15,061	50	-	240	7	1,625
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**12**	**19**	**7**	**21**	**5**	**13**
C. Financial liabilities						
C.1 Due to banks	137,213	14,380	492	3,586	1,702	10,867
C.2 Due to customers	455,302	110,102	108,642	27,119	22,204	36,751
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives						
- Options	-	-	-	-	-	
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	
+ long positions	681,610	195,805	110,987	37,497	23,081	31,016
+ short positions	116,578	78,180	7,720	8,743	972	2,336
Total assets	**707,186**	**202,725**	**116,870**	**39,589**	**24,901**	**51,042**
Total liabilities	**709,093**	**202,662**	**116,854**	**39,448**	**24,878**	**49,954**
Difference	**-1,907**	**64**	**16**	**141**	**23**	**1,089**

2.4 DERIVATIVES

A. FINANCIAL DERIVATIVES

A.1 Regulatory trading book: notional amounts at the reporting date

	31/12/2016		31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt instruments and interest rates				
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share indexes			-	-
a) Options	-	-	457	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold			-	-
a) Options	-	-	-	-
b) Swaps	62,731	-	68,837	-
c) Forwards	1,101,122	-	698,759	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	-	-
Total	**1,163,853**	**-**	**768,053**	**-**

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

	Positive fair value			
	31/12/2016		31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book				
a) Options	-	-	229	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	1,374	-	5,203	-
f) Futures	-	-	-	-
g) Other	373	-	176	-
B. Banking book - hedging				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**1,748**	**-**	**5,608**	**-**

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

	Negative fair value			
	31/12/2016		31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book				
a) Options	-	-	229	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	7,350	-	2,724	-
f) Futures	-	-	-	-
g) Other	278	-	1,096	-
B. Banking book - hedging				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**7,629**	**-**	**4,049**	**-**

A.5 OTC financial derivatives - regulatory trading book: notional amounts, gross positive and negative fair value by counterparty - contracts not included in netting agreements

	Governments and central banks	Other government agencies	Banks	Financial companies	Insurance companies	Non-financial companies	Other
1) Debt instruments and interest rates							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2) Equity instruments and share indexes							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currencies and gold							
- notional amount	-	-	1,074,487	89,366	-	-	-
- positive fair value	-	-	1,597	150	-	-	-
- negative fair value	-	-	6,858	771	-	-	-
- future exposure	-	-	8,286	894	-	-	-
4) Other assets							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
Total	**-**	**-**	**1,091,229**	**91,181**	**-**	**-**	**-**

A.9 Residual maturity of OTC financial derivatives: notional amounts

	Up to 1 year	From 1 to 5 years	After 5 years	Total
A. Regulatory trading book				
A.1 Financial derivatives on debt instruments and interest rates	-	-	-	-
A.2 Financial derivatives on equity instruments and share indexes	-	-	-	-
A.3 Financial derivatives on currencies and gold	1,163,853	-	-	1,163,853
A.4 Financial derivatives on other assets	-	-	-	-
B. Banking book				
A.1 Financial derivatives on debt instruments and interest rates	-	-	-	-
B.2 Financial derivatives on equity instruments and share indexes	-	-	-	-
B.3 Financial derivatives on currencies and gold	-	-	-	-
B.4 Financial derivatives on other assets	-	-	-	-
TOTAL A + B at 31/12/2016	**1,163,853**	**-**	**-**	**1,163,853**
TOTAL A + B at 31/12/2015	**204,730**	**-**	**-**	**204,730**

B. CREDIT DERIVATIVES

ICBPI does not have credit derivatives at the reporting date.

C. FINANCIAL DERIVATIVES

ICBPI does not have financial derivatives at the reporting date.

SECTION 3 - LIQUIDITY RISK

QUANTITATIVE DISCLOSURE

1. Breakdown of financial assets and liabilities by residual contractual maturity

Currency: Euro

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
Assets										
a.1 Government bonds	-	-	-	-	83,000	176,500	731,500	2,009,000	29	-
a.2 Other debt instruments	-	-	-	1,660	2,166	14,817	2,679	13,995	796	-
a.3 OEIC units	40,261	-	-	-	-	-	-	-	-	-
a.4 Financing										
banks	404,235	46,915	152,772	52,880	97,252	-	-	-	-	170,519
customers	1,333,339	3	51,322	156,341	123	180	345	1,356	-	-
Liabilities										
b.1 Deposits and current accounts										
banks	69,988	-	-	112,466	-	-	-	16,210	-	-
customers	4,599,638	-	-	-	-	-	-	209	-	-
b.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
b.3 Other liabilities	908,394	46,910	34,785	52,879	97,230	-	-	167	1	-
Off-statement of financial position transactions										
c.1 Financial derivatives with exchange of principal	-	1,001,014	21	49,589	192,741	2,944	230	2,787	1,959	-
long positions	-	65,024	-	24,782	118,169	1,472	135	1,284	985	-
short positions	-	935,990	21	24,808	74,572	1,472	95	1,503	973	-
c.2 Financial derivatives without exchange of principal										
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
c.3 Deposits and financing to be received										
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
c.4 Irrevocable commitments to disburse funds										
long positions	-	-	-	-	-	-	40,000	-	-	-
short positions	40,000	-	-	-	-	-	-	-	-	-
c.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
c.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
c.7 Credit derivatives with exchange of principal										
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
c.8 Credit derivatives without exchange of principal										
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-

Currency: other

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
Assets										
a.1 Government bonds	-	-	-	-	-	-	-	-	135	-
a.2 Other debt instruments	-	-	-	-	10	-	2	70	81	-
a.3 OEIC units	-	-	-	-	-	-	-	-	-	-
a.4 Financing	60,875	47	279	186	-	100	247	-	-	-
- banks	43,891	47	279	186	-	100	247	-	-	-
- customers	16,984	-	-	-	-	-	-	-	-	-
Liabilities										
b.1 Deposits and current accounts	840,045	86,330	142	142	138	-	-	-	-	-
- banks	81,453	86,330	142	142	138	-	-	-	-	-
- customers	758,592	-	-	-	-	-	-	-	-	-
b.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
b.3 Other liabilities	1,233	-	-	-	-	-	-	31	285	-
Off-statement of financial position transactions										
c.1 Financial derivatives with exchange of principal	-	990,182	21	49,870	191,763	41	-	-	-	-
long positions	-	927,793	21	24,935	74,039	40	-	-	-	-
short positions	-	62,389	-	24,935	117,724	1	-	-	-	-
c.2 Financial derivatives without exchange of principal										
long positions	373	-	-	-	-	-	-	-	-	-
short positions	278	-	-	-	-	-	-	-	-	-
c.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
c.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
c.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
c.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
c.7 Credit derivatives with exchange of principal										
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
c.8 Credit derivatives without exchange of principal										
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-

SECTION 4 – OPERATIONAL RISKS

QUANTITATIVE DISCOSURE

Operational risks			
Relevant indicator	**31/12/2016**	Relevant indicator	**31/12/2015**
2014	300,050	2013	299,291
2015	282,339	2014	300,050
2016	322,442	2015	282,339
Average total income	**301,610**		**293,893**
Operational risk	**45,242**		**44,084**

Part F - EQUITY

Section 1 - Equity

A. QUALITATIVE DISCLOSURE

ICBPI's equity policy is based on full compliance with the supervisory regulation requirements, which identify equity as the main tool against unexpected losses arising from the various risks (credit, market and operational) taken on by banks. Therefore, equity availability is an indispensable tool supporting the bank's development plans.

In accordance with internal procedures, the relevant departments regularly monitor the bank's use of capital and its compliance with capital requirements. These figures are reported with different frequencies to senior management and the board of directors, which are the bodies responsible for deciding, in line with their delegated powers, the methods that the bank should use to pursue its capital management objectives. Similarly, when new activities with potential impacts on the use of capital are carried out, ICBPI forecasts the related effects on equity and their suitability.

Lastly, the bank's dividend distribution policies are also aimed at ensuring a suitable capitalisation level, in line with its development objectives.

B. QUANTITATIVE DISCLOSURE

B.1 Equity: breakdown

	31/12/2016	31/12/2015
1. Share capital	42,557	42,557
2. Share premium	148,242	148,242
3. Reserves		
- income-related		
a) legal	20,000	20,000
b) statutory		
c) treasury shares	777	777
d) other	1,680,687	456,388
- other	10,848	10,848
4. Equity instruments		
5. (Treasury shares)	-32	-32
6. Valuation reserves		
- Available-for-sale financial assets	17,702	24,488
- Property, equipment and investment property		
- Intangible assets		
- Hedges of investments in foreign operations		
- Cash flow hedges		
- Exchange rate gains (losses)		
- Non-current assets held for sale		
- Net actuarial losses on defined benefit pension plans	-1,358	-1,687
- Share of valuation reserves of equity-accounted investees		
- Special revaluation laws	46,219	46,219
7. Profit for the year	84,164	62,246
Total	**2,049,806**	**810,047**

B.2 Fair value reserves (AFS financial assets): breakdown

	31/12/2016		31/12/2015	
	Fair value gains	Fair value losses	Fair value gains	Fair value losses
1. Debt instruments	18,669	-967	24,548	-61
2. Equity instruments	-	-	-	-
3. OEIC units	-	-	-	-
4. Financing				
Total	**18,669**	**-967**	**24,548**	**-61**

B.3 Fair value reserves (AFS financial assets): changes

	Debt instruments	Equity instruments	OEIC units	Financing
1. Opening balance	**24,488**	**-**		**-**
2. Increases				
2.1 Fair value gains				
2.2 Reclassification of fair value losses to profit or loss:				
due to impairment				
on sale				
2.3 Other increases				
3. Decreases				
3.1 Fair value losses				
3.2 Impairment losses				
3.3 Reclassification of fair value gains to profit or loss: on sale				
3.4 Other decreases	6,786			
4. Closing balance	**17,702**			

B.4 Actuarial reserve: changes

The actuarial reserve solely refers to the Italian post-employment benefits vested before 1 January 2006. As there are no plan assets, the reserve only includes the actuarial gains or losses on the liability, which changed as follows:

	Gross actuarial losses	Income taxes	Reserve
Opening balance	**-2,247**	**560**	**-1,687**
Actuarial gains	453	-125	329
Actuarial losses	-	-	-
Closing balance	**-1,794**	**435**	**-1,358**

SECTION 2 - OWN FUNDS AND RATIOS

2.1 - OWN FUNDS

A. QUALITATIVE DISCLOSURE

As of 1 January 2015, banks and banking groups are required to comply with the new minimum capital requirements in relation to risk-weighted assets. The requirements will be progressively increased up to the levels established for 2019, when the transitional regime will end. A capital conservation buffer will be gradually phased in from 1 January 2017 to the end of 2018 in order to reach the target level of 2.5% in 2019.

The banks' total regulatory capital is the sum of the following:

- Tier 1 capital, comprising common equity Tier 1 and additional Tier 1.
- Tier 2 capital

B. QUANTITATIVE DISCLOSURE

	31/12/2016	31/12/2015
A. Common Equity Tier 1 (CET1) before application of prudential filters	1,945,808	719,558
including CET 1 instruments covered by the transitional measures	-	-
B. CET1 prudential filters (+/-)		-
C. CET1 including the elements to be deducted and the effects of the transitional regime (A+/-B)	1,945,808	719,558
D. Elements to be deducted from CET1	-310,369	-131,656
E. Transitional regime - Impact on CET1 (+/-)	-6,537	-183
F. Total Common Equity Tier 1 (Common Equity Tier 1 - CET1) (C-D +/- E)	1,628,902	587,718
G. Additional Tier 1 (AT1) gross of elements to be deducted and the effects of the transitional regime	-	-
including AT1 instruments covered by the transitional measures	-	-
H. Elements to be deducted from AT1	-	-
I. Transitional regime - Impact on AT1 (+/-)	-	-
L. Total Additional Tier 1 (AT1) (G-H +/- I)	-	-
M. Tier 2 (T2) including the elements to be deducted and the effects of the transitional regime	-	-
including T2 instruments covered by the transitional measures	-	-
N. Elements to be deducted from T2	-	-
O. Transitional regime - Impact on T2 (+/-)	3,540	-
P. Total Tier 2 (T2) (M-N+/-O)	3,540	-
Q. Total own funds (F + L + P)	1,632,442	587,718

2.2 CAPITAL ADEQUACY

A. QUALITATIVE DISCLOSURE

ICBPI's own funds exceed those provided for by the regulatory requirements.

B. QUANTITATIVE DISCLOSURE

	Unweighted amounts		Weighted amounts/ requirements	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
A. EXPOSURES				
A.1 Credit and counterparty risk				
1. Standardised method	12,526,857	9,633,353	2,278,484	1,302,558
2. IRB approach				
2.1 Basic				
2.2 Advanced				
3. Securitisations				
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			182,279	104,205
B.2 Credit valuation adjustment risk			154	156
B.3 Regulation risk			-	-
B.4 Market risk				
1. Standard method			805	1,131
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk				
1. Basic method			45,242	44,084
2. Standardised method			-	-
3. Advanced method			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			228,480	149,576
C. EXPOSURES AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,855,997	1,869,700
C.2 CET 1 capital / Risk-weighted assets (CET1 capital ratio)			57.03%	31.43%
C.3 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)			57.03%	31.43%
C.4 Total own funds / Risk-weighted assets (Total capital ratio)			57.16%	31.43%

Part G – BUSINESS COMBINATIONS

Section 1 - Transactions achieved during the year

On November 23rd, 2016, the Extraordinary General Meeting of ICBPI’ shareholders approved the reverse merger of Mercury Italy Srl in ICBPI (the “Merger”). The Merger became effective on December 28th, 2016. From the effective date of the Merger of Mercury Italy Srl in ICBPI, Mercury HoldCo UK Limited has become the main shareholder of ICBPI with a stake of 89.5%.

As a result of this transaction, the assets of Mercury Italy Srl related to ICBPI were offset. Therefore, a deficit equal to the difference between the value of the investment and the equity of the merged company Mercury Italy Srl arose. Assuming that:

- reverse mergers must have the same accounting effects of direct mergers;
- in “under common control” mergers, the continuity of values with the consolidated financial statements accounting principle must be adopted when allocating the cancellation deficit;

the aforementioned cancellation deficit has been allocated in ICBPI post-merger financial statements consistently with the allocation process of the consolidation difference in Mercury UK HoldCo’s consolidated financial statement.

The residual part of that deficit, not allocated to other items, amounting to Euro 246,663 thousand, has been accounted, consistently with Mercury UK HoldCo’s consolidates financial statement, to goodwill.

The merger transaction described above has also resulted in the recognition of a merger surplus of Euro 1,252,417 thousands.

Section 2 - Business combinations after the reporting period

Not applicable

Section 3 – Retrospective adjustments

Not applicable

SECTION 2 - TRANSACTIONS CARRIED OUT AFTER THE REPORTING DATE

The bank did not carry out any business combinations in the first few months of 2017.

Part H - RELATED PARTY TRANSACTIONS

1. Fees of key management personnel

The fees paid by the bank to its directors and key management personnel are set out below.

	31/12/2016
Directors	868
Other key management personnel and members of supervisory committees	10,499
Independent auditors	170
Total	**11,537**

2. Related party transaction

The aim of IAS 24 (Related party transactions) is to ensure that an entity's financial statements include the additional disclosures necessary to understand whether its financial position and performance may be altered by related party transactions and balances.

Based on this standard, applied to its organisational and governance structure, ICBPI identified the following related parties:

- subsidiaries, i.e., those companies over which the bank has direct or indirect control, as defined by IFRS 10;
- associates, i.e., those entities over which the bank directly or indirectly exercises significant influence, as defined by IAS 28;
- jointly controlled entities, over which the bank has direct or indirect joint control, as defined by IFRS 11;
- entities that exercise significant influence over ICBPI and their subsidiaries;
- key management personnel and members of supervisory bodies, as well as their close family members and entities over which they exercise control or significant influence;
- pension plans for the group employees and their related parties.

The effects of transactions carried out with the related parties identified above are summarised in the following table.

(€'000)	Total	Subsidiaries	Other related parties	Directors, managers and members of supervisory bodies
70. Loans and receivables with customers	1,580,147	1,120,752	41,913	-
150. Other assets	240,163	35,128	12	-
20. Due to customers	6,228,123	3,632	-	-
100. Other liabilities	307,626	3,148	1,361	138
10 Interest and similar income	54,890	14,098	25	-
20. Interest and similar expense	10,876	1	-	-
40. Fee and commission income	133,448	3,641	-	-
50. Commissioni passive	34,036	41	-	-
150. Administrative expenses	210,168	4,374	6,179	11,537
190. Other net operating income	72,590	21,765	20	-

Centralised transactions with ICBPI group companies are usually governed by specific agreements that, while aiming at optimising synergies and economies of scale and purpose, make reference to objective parameters that are constant over time, characterised by transparency and substantial fairness. Transfer pricing is defined and formalised based on parameters that account for the actual use of the service by each end user.

Other transactions with group companies and other related parties are part of the bank's normal business operations and usually take part at market conditions.

Part I - SHARE-BASED PAYMENTS

None.

Report by the Board of Auditors to the Shareholders' meeting

ISTITUTO CENTRALE DELLE BANCHE POPOLARI ITALIANE S.P.A.

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STATUTORY AUDITORS' REPORT
TO THE SHAREHOLDERS' MEETING

(Pursuant to art. 2429, paragraph 2, civil code)

* * *

In 2016, the Board of Statutory Auditors performed its supervisory duties as required by law and regulation in force. The activity of the Board of Statutory Auditors took place in coordination with KPMG S.p.A., which is entrusted with the external audit.

* * *

Particularly significant transactions - Corporate Governance

At the end of 2016, Istituto Centrale delle Banche Popolari Italiane S.p.A. (Hereinafter "ICBPI") signed an agreement to acquire up to 100% of Bassilichi S.p.A., Parent Company of the Bassilichi Group, operator specializing in payments and business services.

In the last quarter of the year, ICBPI also submitted offers for the acquisition of the Business Units (BUs) relating to the acquiring activities of Banca Monte dei Paschi di Siena and Deutsche Bank S.p.A. The signing of both deals was finalized in February 2017. The acquisition of the BUs is now subject to obtaining the necessary authorizations from the competent Supervisory Authority.

The majority shareholder of the Institute, Mercury UK Holdco Limited, through the vehicle Latino Srl, completed the acquisition of Setefi Services and Intesa Sanpaolo Card from IntesaSanPaolo on 15 December 2016, now Mercury Payment Services and Mercury Processing Services International, respectively.

As part of the renewal process of the ICBPI Group governance, initiated as a result of the change occurred in the Group's ownership control, the relevant statutory bodies approved the replacement of the leadership of the Institute and the subsidiary CartaSi.

The Shareholders' Meeting of the Institute, which met in an ordinary session on 23 May 2016, after bringing the number of directors to fifteen, appointed Paolo Bertoluzzo as director for 2016 and 2017. On the same date, the Advisory Board of the Institute approved the appointment of Paolo Bertoluzzo as General Manager and CEO with effect from 11 July 2016. The same representative also assumed the position of CEO of the subsidiary CartaSi with effect from 11 July 2016 too.

Giuseppe Capponcelli, the operational leader of the Institute since 2008, and CartaSi since 2015, was appointed Vice Chairman of the Parent Company with effect from 11 July 2016.

On June 22, Franco Bernabè, already Chairman of CartaSi, also assumed the presidency of the Parent Company.

On 23 November 2016, the Shareholders' Meeting, convened in an extraordinary session, approved the reverse merger of Mercury Italy S.r.l. (Corporate vehicle indirectly held by the funds Bain Capital, Advent International and Clessidra) in ICBPI.

The merger was completed on December 29. All 12,635,323 ordinary shares of ICBPI, owned by Mercury Italy S.r.l. and representing the 89.07% of the share capital of the acquiring company, were assigned due to effect of the merger to the only shareholder of the incorporated company - Mercury UK HoldCo Limited - with the minority shareholders (i.e. other than UK HoldCo Limited) maintaining 1,475,276 ordinary shares of the Institute already held.

On 18 January 2016 and 24 June 2016, ICBPI acquired the equity interests held by four shareholders of CartaSi (Cedacri SpA, Banca Carige S.p.A., Cassa di Risparmio di Fossano S.p.A. e Banca Mediolanum S.p.A.), raising its stake to 98.74% of the company's share capital.

ICBPI Group Organizational Structure

In reference to the guidelines of the Business Plan approved by the Board of Directors of the ICBPI Parent Company on 22 June 2016, a new organizational structure was adopted in November for ICBPI and CartaSi in line with the Group target organizational model, which will be developed in two phases. The first phase, completed in November 2016, saw the implementation of the first reporting line of the CEO through the establishment of first level functions in ICBPI and CartaSi. The second phase will take into account the assessments of the new managers and the guidance provided in the Group 2017-2021 Business Plan.

The target organizational model focuses on three strategic business lines, Issuing, Merchant Services and Payments/ATM, accompanied and supported by several support functions.

As for the Parent Company, the following areas were established: the Chief Financial Officer Division (CFO Area), the Chief Administrative Officer Division (CAO Area) and the Corporate & External Affairs Division. The Chief Information Officer Division (CIO Area) was also reorganized.

As for CartaSi, the new business units Issuing and Merchant Services, the Commercial Division and the new Business Development Division were established.

The Payment Cards Division assumed the name of Operations Divisions and the activities and resources of the ATM and POS Division - which has been abolished – were transferred to it. The Governance and Support Division was also eliminated, whose activities and resources were respectively transferred to the Operations Division and the CFO CartaSi Area Division, which was assigned to the ICBPI CFO.

In CartaSi, a Chief Information Security Officer was also appointed.

Intra-group transactions with related parties and associated entities

The Board of Directors adequately reported and illustrated the transactions undertaken with the related parties indicated, in anticipation of the IAS 24, in the Management Report and in the Explanatory Notes, to which reference is made.

It is noted that, in order to oversee the risk that the proximity of certain parties (so-called "Related Parties") to the company's decision-makers might compromise the objectivity and impartiality of business decisions, with possible distortions in the allocation process of the resources, exposure of the company to risks not adequately measured or, potential damage to the company itself and its stakeholders, the ICBPI

Group adopted a Regulation on Transactions with Related Parties in compliance with the provisions contained in the Bank of Italy circular no. 263 of 2006 ("New prudential supervisory provisions for banks").

Relations with the other Group companies, aimed at optimizing synergies and economies of scale, are governed by specific contractual agreements submitted to the Board of Directors for approval on 22 June 2016.

* * *

Activities carried out by the Board of Statutory Auditors during the financial year

- The Board of Statutory Auditors monitored compliance with the law, the regulations and the Articles of Association.

- The financial statements for the year ended 31 December 2016 and the consolidated financial statements complete with the Explanatory Notes and accompanied by the Directors Report on operations were approved on 21 March 2017 by the Board of Directors and made available to the Board of Statutory Auditors as prescribed by law.

- In performing the monitoring activities, the Board of Statutory Auditors complied with the rules established by Legislative Decree no. 39/2010, the Bank of Italy Circular 285/2013, the Bank of Italy Communication no. 264010 of 04/03/2008 and subsequent amendments, the Bank of Italy, Consob, ISVAP Joint Document no. 2 of 06/02/2009 and no. 4 of 03/03/2010, the content of art. 2429, paragraph 2 of the Civil Code, as well as the principles of conduct recommended by the Association of Chartered Accountants (2015 edition).

- To carry out such supervisory functions, the Board of Statutory Auditors acquired the information through meetings with the heads of the competent corporate structures, especially those of control, and by attending the meetings of the Board of Directors, the Risk Committee and the Remuneration Committee. It is recalled that Board of Statutory Auditors were assigned the Supervisory Body functions pursuant to Legislative Decree no. 231/2001 on 18 December 2015.

- The Board of Statutory Auditors, during 2016, attended all the meetings of the Board of Directors and met, in order to further analyse specific topics, the CEO and the Chairman of the Company. In these meetings, adequate information was received on the activities carried out and on the significant economic, financial and capital transactions of ICBPI and/or its subsidiaries. It is reasonably possible to ensure that actions resolved and put in place are in accordance with the law and the articles of association, and are not manifestly imprudent, or risky, or in conflict of interest, or in contrast with the resolutions passed by the Shareholders' Meeting, or such to compromise the capital maintenance.

- The Board of Statutory Auditors monitored, to the extent applicable, the scope of the matters that form the subject of operational overlap with the partner banks in accordance with the regulations introduced by art. 36 of Decree Law 6 December 2011 No. 201 (so-called interlocking ban) and delegated to the CEO, reporting, also, to the Board of Directors. Upon completion of such monitoring, changes in the scope were not recognized and, therefore, the scope of the resolutions reserved to the Chief Executive Officer was confirmed.

- The Board of Statutory Auditors monitored, to the extent applicable, the organizational structure, however, constantly subject to improvement measures, compliance with the principles of sound management and the adequacy and compliance of contractual standards agreed for the services provided by other companies of the group. This by means of gathering information from the heads of the organizational functions and meetings with the auditing firm, for the reciprocal exchange of relevant data and information. In this regard, there are no particular observations to make.

- The audit, risk management and compliance functions, centralized in the Parent Company, operate for the whole group; the adequacy of the internal control system was verified with frequent meetings with the heads of these functions, with the examination of the reports submitted periodically to the Board of Statutory Auditors and the Board of Directors (quarterly Tableau de Bord, reports on the progress of the planned activities and plans of the annual activities etc.).

At the meeting on:

- 27 April 2016, the Board of Directors approved the ICAAP report as at 31 December 2015 and the review of some RAF metrics;
- 22 June 2016, the Board of Directors approved the Report of the Anti-Money Laundering function on its activities in 2015 and for the 2016 Plan;
- 27 July 2016, the Board of Directors approved the review of the non-compliance risk management policy and the Management Policy update on Conflicts of Interest;
- 6 October 2016, the Board of Directors approved the Policy for the management and communication of insider information, insider dealing and periodic financial information;
- 3 November 2016, the Board approved the report on the state of compliance with the "Guidelines on the security of internet payments" issued by the European Banking Authority (EBA) on 18 December 2014;
- 13 December 2016, the Board of Directors adopted the updated version of the following internal regulations:
    - Policy on incentives adopted by ICBPI pursuant to Article 15 of the Bank of Italy - Consob Joint Regulation (Incentives Policy);
    - Policy for the management of the obligations regarding market manipulation and abuse of privileged information (Market Abuse Policy);
    - Code of Conduct;
    - Execution Policy;
    - Policy on the ICBPI Group money laundering and counterterrorism;

- The Board of Statutory Auditors monitored the correct upkeep of the anti-money laundering controls by the Company with periodic meetings with the representatives of the Anti-Money Laundering function.

- The Board of Statutory Auditors monitored the implementation, by the Company, of the corrective actions and measures identified and proposed by the Audit Department.

- The Supervisory Body, set up in anticipation of the legislative decree of 8 June 2001, no. 231 and whose functions have been consolidated in the Board of Statutory Auditors, continued its activities without encountering anomalies or reprehensible facts, as evidenced by the periodic Reports provided to the corporate bodies.

- The adequacy of the administrative-accounting system and its reliability in correctly representing the administration was verified. This by means of the acquisition of information from the heads of the respective functions, examination of the company documents and results analysis of the work carried out by the auditing firm, as well as monitoring the work of the internal control officers.

- The Board of Statutory Auditors held regular meetings with representatives of the auditing firm, exchanging information regarding the company's auditing activity. There were no fundamental issues that need to be highlighted in this report

- In addition to the auditing assignments of the annual and semi-annual accounts, the KPMG S.p.A. auditors and other entities belonging to the "network" of audit firms were given different assignments, invoices received for which are indicated in the table below:

KPMG ENTITY	DESCRIPTION OF SERVICE	FEES INVOICED IN 2016 (Inc. EXPENSES)
KPMG Advisory S.p.A.	SUPPORT FOR VERIFICATION EBA PAYMENT REQUIREMENTS	15,200
KPMG Advisory S.p.A.	GAP ANALYSIS, SUPPORT FOR MIGRATION ACTIVITY AND APPLICATION MAINTENANCE OF IAG SYSTEM	94,500
KPMG S.p.A.	SWORN EXPERT'S REPORT ART. 2501 CIVIL CODE	25,000
		134,700

- The management report for financial year 2016 complies with the regulations in force, consistent with the management body decisions and the results of the financial statements; it contains, as already mentioned, adequate information on the activity of the year and on intragroup transactions and transactions with Related Parties. The explanatory notes to Part provides an indication of the principal risks and coverage policies, as recommended by the Bank Italy, Consob, ISVAP joint documents no. 2 of 6 February 2009, no. 4 of 3 March 2010.

- The financial statements were prepared according to the structure and schemes imposed by law. The financial statements for the year ended 31 December 2016 were prepared in accordance with the instructions issued by the Bank of Italy and according to international accounting standards (IAS and IFRS) in force as at 31 December 2016. The company KPMG S.p.A. released its report "without changes" or additional disclosures

- The auditing firm stated, in the provisions of art. 17 of Legislative Decree. 39/2010, there are no reasons that could compromise its independence

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- During the year, the Board of Statutory Auditors issued the opinions required by law, the Supervisory Regulations and the Articles. Among others, we note the following opinions:

  - 22 March 2016, pursuant to Article. 136 of Legislative Decree no. 385/1993 (TUB), on the signing of a consulting contract, and on remuneration policies for 2015 and 2016;

  - 6 May 2016, pursuant to Article. 2391 civil code, on the update of intercompany contracts;

  - 23 May 2016, pursuant to Article. 2389, paragraph 3, on the determination of the extent of the remuneration of the Vice Chairman of the Board of Directors and the total remuneration for the CEO and General Manager;

  - 22 June 2016, pursuant to art. 2389, paragraph 3, on the determination of the extent of the remuneration of the Chairman of the Board of Directors, the Vice Chairman of the Board and Chief Executive Officer;

  - 13 December 2016, on the update of the Corporate Group Governance Project.

- The Board of Statutory Auditors did not receive any complaints pursuant to art. 2408 civil code, or petitions

- The supervision activity of the Board of Statutory Auditors was reported in the minutes of the 23 meetings held during 2016. The Board of Statutory Auditors also participated in 13 of the Board of Directors meetings: it is acknowledged that the supporting documentation to the agenda was comprehensive and sent sufficiently in advance.

- During the supervisory activity and based on the information obtained from the Auditing Firm, no omissions, or questionable facts, or irregularities, or significant facts were identified such as to require reporting to the control bodies or to mention in this report.

* * *

Supervisory activities pursuant to art. 19 of Legislative Decree n. 39/2010

It is recalled that Article. 19 of Legislative Decree no. 39/2010 identified the functions of supervision for the Board of Statutory Auditors, functions that can be grouped into four areas: financial reporting; internal control systems, internal audit and risk management; external audit and auditor independence.

Although the report that precedes already in part provides the indications referred to by art. 19, specifically, it is stated that the supervisory activity related to the financial reporting process, internal control systems and risk management, external audit activity and auditor independence did not reveal any additional information to report.

* * *

Proposal to the Shareholders' Meeting

- **Financial Statements as at 31 December 2016**

Considering the results of the activities carried out by the body in charge of the audit, contained in the report issued today, the Board expresses a favourable opinion on the approval of the financial statements as at 31 December 2016 that reported a profit of € 84,163,727 (2015: € 62,246,319); no impediment to the proposal for its allocation formulated by the Board of Directors.

Milan, 6 April 2017

On behalf of the Board of Statutory Auditors

The Chairman

Alessandro Grange

Report of the Auditing Company

KPMG

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI
Telefono +39 02 6763.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Istituto Centrale delle Banche Popolari Italiane S.p.A.

Report on the separate financial statements

We have audited the accompanying separate financial statements of Istituto Centrale delle Banche Popolari Italiane S.p.A. (the "bank"), which comprise the statement of financial position as at 31 December 2016, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and related notes.

Directors' responsibility for the separate financial statements

The bank's directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 43 of Legislative decree no. 136/2015.

Independent auditors' responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of separate financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements give a true and fair view of the bank's financial position as at 31 December 2016 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 43 of Legislative decree no. 136/2015.

Report on other legal and regulatory requirements

Opinion on the consistency of the directors' report with the separate financial statements

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the directors' report, which is the responsibility of the bank's directors, with the separate financial statements. In our opinion, the directors' report is consistent with the separate financial statements the Istituto Centrale delle Banche Popolari Italiane Group as at and for the year ended 31 December 2016.

Milan, 6 April 2017

KPMG S.p.A.

(signed on the original)

Roberto Fabbri
Director of Audit

Financial statements
of the group companies

CARTASI S.P.A.

	ASSETS (€)	31/12/2016	31/12/2015
10	Cash and cash equivalents	20,485	22,015
40	Available-for-sale financial assets	47,583,219	3,762,517
60	Loans and receivables	2,391,811,519	2,368,975,621
90	Equity investments	-	-
100	Property, equipment and investment property	84,181,370	81,673,157
110	Intangible assets	25,007,834	9,969,718
120	Tax assets		
	a) current	-	975,584
	b) deferred	20,359,976	21,399,065
	- including as per Law no. 214/2011	12,443,350	13,323,345
130	Non-current assets held for sale and disposal groups	-	186,205,855
140	Other assets	222,921,686	228,100,902
	TOTAL ASSETS	**2,791,886,089**	**2,901,084,434**
	LIABILITIES (€)		
10	Liabilities	1,618,509,179	1,905,977,079
70	Tax liabilities		
	a) current	16,727,819	-
	b) deferred	3,679,927	17,480,850
90	Other liabilities	360,105,825	268,785,036
100	Post-employment benefits	6,495,740	6,769,799
110	Provisions for risks and charges:		
	b) other provisions	13,589,326	15,803,053
120	Share capital	56,888,798	56,888,798
150	Share premium	2,273,684	2,273,684
160	Reserves	380,063,253	379,885,319
170	Valuation reserves	3,643,851	175,931,884
180	Profit for the year	329,908,687	71,288,932
	TOTAL LIABILITIES AND EQUITY	**2,791,886,089**	**2,901,084,434**

CARTASI S.P.A.

	INCOME STATEMENT (€)	2016	2015
10	Interest and similar income	24,303,884	25,315,151
20	Interest and similar expense	(31,572,640)	(35,569,143)
	Net interest expense	**(7,268,756)**	**(10,253,992)**
30	Fee and commission income	854,265,994	926,095,033
40	Fee and commission expense	(543,041,248)	(639,529,447)
	Net fee and commission income	**311,224,746**	**286,565,586**
50	Dividends and similar income	107,700	15,780
60	Net trading income (losses)	(560,275)	37,827
90	Net profit on sale or repurchase of:		
	a) financial assets	278,050,936	109
	b) financial liabilities		
	Total income	581,554,351	276,365,310
100	**Net impairment losses:**		
	a) financial assets	(2,245,522)	(2,599,251)
110	Administrative expenses:		
	a) personnel expense	(41,485,760)	(38,940,606)
	b) other administrative expenses	(306,229,280)	(311,425,194)
120	Depreciation and net impairment losses on property, equipment and investment property	(20,545,666)	(18,754,364)
130	Amortisation and net impairment losses on intangible assets	(4,952,905)	(3,747,282)
150	Net accruals to provisions for risks and charges	(1,473,429)	(739,956)
160	Other operating income	187,699,354	203,451,442
	Operating profit	392,321,143	103,610,099
	Pre-tax profit from continuing operations	**392,321,143**	**103,610,099**
190	**Income taxes**	**(62,412,456)**	**(32,321,167)**
	Post-tax profit from continuing operations	329,908,687	71,288,932
	Profit for the year	**329,908,687**	**71,288,932**

OASI DIAGRAM S.P.A.

ASSETS (€)	31/12/2016	31/12/2015
Non-current assets		
Intangible assets	10,462,198	6,705,636
Property, plant and equipment	211,493	194,303
Deferred tax assets	65,285	68,873
Total Non- current assets	**10,738,976**	**6,968,812**
Currents assets		
Trade and other receivables:	14,313,690	14,195,878
Trade receivables due from banks	13,352,921	12,645,174
Trade receivables due from parent	960,769	1,550,704
Tax credits	234,350	417,913
Otehr current receivables	2,071,774	2,313,817
Cash and equivalents	409,275	2,416,052
Total Current assets	**17,029,089**	**19,343,660**
Total assets	**27,768,065**	**26,312,472**
LIABILITIES (€)		
Net assets		
Share capital	3,000,000	3,000,000
Share premium	2,578,492	2,578,492
Valuation reserves	(100,808)	(102,681)
Legal reserve	621,208	621,208
Other reserves	966,850	966,850
Retained earnings	6,050,211	6,050,211
Profit for the year (+/-)	2,730,036	3,002,699
Total equity	**15,845,990**	**16,116,779**
Non-current liabilities		
Deferred tax liabilities	323,989	298,815
Provisions for risks and charges	64,933	80,255
Post-employment benefits	416,200	414,679
Total Non-current liabilities	**805,122**	**793,749**
Current liabilities		
Loans and borrowings	7,928,369	6,686,395
Trade payables	5,405,915	4,595,169
Due to parent	2,522,453	2,091,226
Tax payables	356,802	412,028
Payables to pension and social security institutions	253,054	285,584
Other current liabilities	2,578,728	2,017,937
Total current liabilities	**11,116,952**	**9,401,944**
Total liabilities	**27,768,065**	**26,312,472**

OASI DIAGRAM S.P.A.

INCOME STATEMENT (€)	2016	2015
Rendering of services	27,837,798	29,186,812
Other operating income	83,731	197,399
Production expenses	(2,956,286)	(3,162,327)
Service costs	(8,286,831)	(9,854,344)
Other administrative expenses	(863,036)	(922,338)
Personnel expense	(7,465,111)	(7,404,056)
Depreciation and amortisation expenses	(4,054,369)	(3,370,183)
Net accruals to provisions for risks and chages	(82,804)	(95,758)
Other operating expenses	(88,105)	(142,681)
Finance income / costs	(1,985)	(2,040)
Pre-tax profit from continuing operations	**4,123,002**	**4,430,484**
Imcome taxes	(1,392,966)	(1,427,785)
a) current	(1,364,204)	(1,401,075)
b) deferred tax assets	(3,588)	(35,460)
c) deferred tax expense	(25,174)	8,750
Profit for the year	**2,730,036**	**3,002,699**

HELP LINE S.P.A.

	ASSETS (€)	31/12/2016	31/12/2015
10.	Cash and cash equivalents	**927**	**822**
60.	Loans and receivables	**4,845,840**	**5,811,316**
100.	Property, equipment and investment property	**6,489,335**	**6,736,239**
110.	Intangible assets	**562,562**	**397,707**
120.	Tax assets	**682,876**	**897,373**
	a) current	489,958	568,641
	b) deferred	192,918	328,732
140.	Other assets	**10,018,488**	**10,039,283**
	TOTAL ASSETS	**22,600,028**	**23,882,740**
	LIABILITIES (€)		
70.	Tax liabilities	**84,769**	**88,682**
	a) current	-	-
	b) deferred	84,769	88,682
90.	Other liabilities	**11,640,550**	**10,393,166**
100.	Post-employment benefits	**2,261,363**	**2,343,905**
110.	Provisions for risks and charges:	**102,422**	**332,523**
	b) other provisions	102,422	332,523
120.	Share capital	**2,116,000**	**2,116,000**
150.	Share premium	**135,789**	**135,789**
160.	Reserves	**6,710,123**	**6,590,563**
170.	Valuation reserves	**-483,045**	**-509,090**
180.	Profit for the year	**32,057**	**2,391,202**
	TOTAL LIABILITIES AND EQUITY	**22,600,028**	**23,882,740**

HELP LINE S.P.A.

	INCOME STATEMENT (€)	2016	2015
10.	Interest and similar income	**18**	**940**
20.	Interest and similar expense	**-402**	**-166,814**
	Net interest expense	**-384**	**-165,874**
	Net fee and commission income	**-384**	**-165,874**
110.	Administrative expenses:	**-34,456,175**	**-34,321,379**
	a) personnel expense	-18,669,486	-18,152,786
	b) other administrative expenses	-15,786,689	-16,168,593
120.	Depreciation and net impairment losses on property, equipment and investment property	**-416,083**	**-501,749**
130.	Amortisation and net impairment losses on intangible assets	**-171,184**	**-107,495**
150.	Net accruals to provisions for risks and charges	**93,520**	**1,897,033**
160.	Other operating income	**35,087,432**	**36,765,142**
	Operating profit	**137,126**	**3,565,678**
	Pre-tax profit from continuing operations	**137,126**	**3,565,678**
190.	Income taxes	**-105,069**	**-1,174,476**
	Profit for the year	**32,057**	**2,391,202**

Shareholders’ Meeting resolutions

of April 21, 2017

Below is a summary of the resolutions adopted by the Ordinary Shareholders’ Meeting held on first call on 21 April 2017.

1. Financial statements as of 31 December 2016; Report on Operations of the Board of Directors; reports of the Board of Statutory Auditors and the external Auditor; related resolutions.
   The Meeting approved the financial statements at December 31, 2016 as presented by the Board of Directors and its operating profit.

2. Appointment of Directors; related resolutions.
   The Meeting appointed as members of the Board of Directors Mr. Umberto Colli and Mr. Federico Ghizzoni who shall remain in office until the approval of the financial statements at December 31, 2017.

3. ICBPI Group remuneration policies; related resolutions.
   The Meeting approved the remuneration policies of ICBPI Group as proposed by the Board of Directors.

Company Boards

at 21 April 2017

BOARD OF DIRECTORS

Chairman:	Franco Bernabè	
Deputy Chairman:	Giuseppe Capponcelli	
Chief Executive Officer:	Paolo Bertoluzzo	
Directors:	Luca Bassi	James Gerald Arthur Brocklebank
	Francesco Casiraghi	Michaela Castelli
	Umberto Colli	Simone Cucchetti
	Stuart James Ashley Gent	Federico Ghizzoni
	Larry Allan Klane	Robin Marshall
	Jeffrey David Paduch	Ottavio Rigodanza

BOARD OF STATUTORY AUDITORS

Chairman:	Alessandro Grange	
Standing auditors:	Lorenzo Banfi	Paolo Francesco Maria Lazzati
Alternate auditors:	Alberto Balestreri	Marco Giuseppe Zanobio

GENERAL MANAGEMENT

General Manager:	Paolo Bertoluzzo
Deputy Vice General Manager:	Pier Paolo Cellerino

Shareholders' list

Mercury UK HoldCo Limited	Londra
Banco BPM S.p.A.	Milano
Credito Valtellinese Soc. Coop.	Sondrio
Banca Popolare di Sondrio S.c.p.A.	Sondrio
BPER Banca S.p.A.	Modena
UBI Banca S.p.A.	Bergamo
Banca Popolare di Cividale S.c.p.A.	Cividale
ICBPI S.p.A.	Milano
ICCREA Holding S.p.A.	Roma
Banca Sella Holding S.p.A.	Biella
Banca Popolare del Frusinate S.c.p.A.	Frosinone
Banca Popolare Vesuviana Soc. Coop.	S. Giuseppe Vesuviano
Nuova Cassa di Risparmio di Ferrara S.p.A.	Ferrara

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