IMPORTANT NOTICE

You must read the following disclaimer before continuing. The following applies to the Offering Circular following this notice, and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them anytime you receive any information from us as a result of such access.

The Offering Circular has been prepared in connection with the proposed offering and sale of the shares (the "**Offer Shares**") described therein. The Offering Circular and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person.

The Offering Circular may not be forwarded or distributed to any other person and may not be reproduced in any manner whatsoever. Any forwarding, distribution or reproduction of the Offering Circular, in whole or in part, is unauthorized. Failure to comply with this directive may result in a violation of the U.S. Securities Act of 1933, as amended (the "Securities Act"), or the applicable laws of other jurisdictions. If you have gained access to this transmission contrary to any of the foregoing restrictions, you are not authorized and will not be able to purchase any of the Offer Shares.

Nothing in this electronic transmission constitutes an offer of securities for sale in any jurisdiction where it is unlawful to do so. The Offer Shares have not been, and will not be, registered under the Securities Act or the securities laws of any state of the United States or any other jurisdiction, and the Offer Shares may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws.

You may not transmit the Offering Circular (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the explicit consent of the Joint Global Coordinators (as defined in the Offering Circular). If you receive this document by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Confirmation of your representation. In order to be eligible to view the Offering Circular or make an investment decision with respect to the Offer Shares described therein, you must (1) be a qualified institutional buyer ("**QIB**") (within the meaning of Rule 144A under the Securities Act ("**Rule 144A**")) or (2) be outside the United States. The Offering Circular is being sent at your request. By accepting this electronic transmission and accessing the Offering Circular, you shall be deemed to have represented to us that you consent to delivery of such Offering Circular by electronic transmission; and either:

(a) you and any customers you represent are outside the United States and the e-mail address that you gave us and to which this Offering Circular has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any state of the United States or the District of Columbia; or

(b) you and any customers you represent are QIBs.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession it may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver the Offering Circular to any other person.

Under no circumstances shall the Offering Circular constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of Offer Shares, in any jurisdiction in which such offer, solicitation or sale would be unlawful. If a jurisdiction requires that the offering and sale of the Offer Shares be made by a licensed broker or dealer and the Joint Global Coordinators (as defined in the Offering Circular) or any affiliate of theirs is a licensed broker or dealer in that jurisdiction, the offering and sale of the Offer Shares shall be deemed to be made by them or such affiliate on behalf of Banca Farmafactoring S.p.A. (the "**Company**") and BFF Luxembourg S.à r.l. (the "**Selling Shareholder**") in such jurisdiction.

The Offering Circular has not been approved by an authorized person in the United Kingdom and is for distribution only to persons who: (i) have professional experience in matters relating to investments (being investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "**Financial Promotion Order**")), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc.") of the Financial Promotion Order, (iii) are outside the United Kingdom or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any Offer Shares may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "**relevant persons**"). This Offering Circular is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Circular relates is available only to relevant persons and will be engaged in only with relevant persons. No part of this Offering Circular should be published, reproduced, distributed or otherwise made available in whole or in part to any other person.

No person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) received by it in connection with the issue or sale of the securities other than in circumstances in which Section 21(1) of the Financial Services and Markets Act 2000 does not apply to us.

This document and the offer described therein when made are only addressed to and directed at persons in member states of the European Economic Area who are "**qualified investors**" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC and amendments thereto, including Directive 2010/73/EU, to the extent implemented in the relevant Member State of the European Economic Area) and any implementing measure in each relevant Member State of the European Economic Area ("**Qualified Investors**"). In addition, in Italy, this document is being distributed only (a) to, and is directed only at, qualified investors as defined pursuant to Article 34-*ter*, paragraph 1, letter b) of CONSOB Regulation No. 11971 of May 14, 1999, as amended (the "**Issuers' Regulation**") implementing Article 100 of Consolidated Financial Act or (b) in any other circumstance where an express exemption from the regulations on offers to the public applies, including, without limitation as provided under Article 100 of the Consolidated Financial Act and Article 34-*ter* of the Issuers' Regulation.

This document must not be acted on or relied on (i) in Italy, by persons who are not Italian Qualified Investors, (ii) in the United Kingdom, by persons who are not relevant persons, and (iii) in any member state of the European Economic Area other than the United Kingdom and Italy, by persons who are not Qualified Investors. Any investment or investment activity to which this document relates is available only to (i) in Italy, Italian Qualified Investors, (ii) in the United Kingdom, relevant persons, (iii) in any member state of the European Economic Area other than Italy and the United Kingdom, Qualified Investors and (iv) in the United States, QIBs, and will be engaged in only with such persons.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted through this medium may be altered or changed during the process of electronic transmission, and consequently, none of the Joint Global Coordinators, any person who controls any of the Joint Global Coordinators, us or any of our subsidiaries, the Selling Shareholder, nor any director, officer, employee, agent or affiliate of any of the foregoing entities and persons, accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Global Coordinators.

OFFERING CIRCULAR
NOT FOR GENERAL CIRCULATION IN THE UNITED STATES

BFF BANKING GROUP

Banca Farmafactoring S.p.A.

(*incorporated in the Republic of Italy as a joint stock company*)

Offering of 53,000,000 ordinary shares

(*with no par value*)

This offering circular (the "**Offering Circular**") relates to the initial public offering of the ordinary shares of Banca Farmafactoring S.p.A., a joint stock company (*società per azioni*) incorporated under the laws of the Republic of Italy (the "**Company**", "**us**" or "**we**"). BFF Luxembourg S.à r.l., a limited liability company (*société à responsabilité limitée*) incorporated under the laws of the Grand Duchy of Luxembourg (the "**Selling Shareholder**"), is offering for sale up to 53,000,000 of our ordinary shares. We will not receive any proceeds from the sale of ordinary shares by the Selling Shareholder, all of which will be paid to the Selling Shareholder. A maximum of 53,000,000 ordinary shares are hereby being offered by means of: (i) an offering in the United States only to qualified institutional buyers ("**QIBs**") as defined in Rule 144A under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act and (ii) an offering to institutional investors outside the United States in offshore transactions in reliance upon Regulation S under the Securities Act (the "**Offering**"). The ordinary shares being offered in the Offering, including the Over-allotment Shares (as defined below) as applicable, are referred to herein as the "**Offer Shares**".

The Selling Shareholder has granted Mediobanca-Banca di Credito Finanziario S.p.A. (the "**Stabilizing Manager**"), on behalf of the several institutional managers named in this Offering Circular, an option (the "**Over-allotment Option**") to purchase up to 7,950,000 additional Offer Shares (the "**Over-allotment Shares**") in the Offering (equal to up to 15% of the shares offered in the Offering) at the offering price to cover over-allotments, if any. The option is exercisable until the day falling 30 days from the commencement of trading of our shares on the MTA (as defined below). If the Over-allotment Option is exercised in full, the total number of Offer Shares would amount to 60,950,000.

Prior to the Offering, there has been no public market for the shares and the Selling Shareholder owned 94.196% of our issued and outstanding shares. Following the completion of the Offering, the Selling Shareholder will own approximately 63.0% of our share capital if the Over-allotment Option is not exercised and approximately 58.4% if the Over-allotment Option is exercised in full.

We have applied to list our shares on the *Mercato Telematico Azionario* (the "**MTA**"), the Italian screen-based trading system managed by Borsa Italiana S.p.A. ("**Borsa Italiana**"). Trading in our shares on the MTA is expected to commence on April 7, 2017 (the "**Trading Date**").

The offering price is €4.7 per ordinary share.

Investing in the Offer Shares involves risks. Prospective investors should read this entire document and, in particular, "*Risk Factors*" beginning on page 23 for a discussion of certain risks which you should consider in connection with an investment in the Offer Shares.

The Offer Shares have not been and will not be registered under the Securities Act and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. In the United States, the Offer Shares will be offered for sale only to QIBs. Prospective investors that are QIBs are hereby notified that the seller of Offer Shares may be relying upon the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Outside the United States, the Offer Shares will be offered in reliance upon Regulation S under the Securities Act. You should refer to the sections "*Plan of Distribution—Selling Restrictions*" and "*Transfer Restrictions*" for a description of certain restrictions on resale or transfer of the Offer Shares.

We expect that delivery of the Offer Shares will be made to investors through the book-entry facilities of Monte Titoli S.p.A. ("**Monte Titoli**"), Clearstream Banking, *société anonyme* ("**Clearstream**"), and Euroclear Bank S.A./N.V. ("**Euroclear**") on or about April 7, 2017.

Joint Global Coordinators and Joint Bookrunners

Deutsche Bank **Mediobanca** **Morgan Stanley**

Joint Bookrunners

BNP PARIBAS **Jefferies** **UniCredit Corporate & Investment Banking**

Co-lead Manager

Banca Akros

This Offering Circular is dated April 5, 2017

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IMPORTANT INFORMATION

We are a joint stock company organized under the laws of the Republic of Italy. Our principal executive offices are located at Via Domenichino, 5, Milan (MI) 20149, Italy and our telephone number is +39 02 499051.

In this Offering Circular, unless otherwise specified: (i) "**we**", "**us**", "**our**" and the "**Company**" refer to Banca Farmafactoring S.p.A. together with its consolidated subsidiaries, unless the circumstances otherwise require, (ii) "**Joint Global Coordinators**" refer to Deutsche Bank AG, London Branch, Mediobanca-Banca di Credito Finanziario S.p.A. and Morgan Stanley & Co. International plc, (iii) "**Joint Bookrunners**" refer to Deutsche Bank AG, London Branch, Mediobanca-Banca di Credito Finanziario S.p.A. Morgan Stanley & Co. International plc, BNP Paribas, Jefferies International Limited and UniCredit Bank AG, Milan Branch ("**UniCredit Corporate & Investment Banking**"), (iv) "**institutional managers**" refer jointly to the Joint Global Coordinators and the Joint Bookrunners, and Banca Akros S.p.A., as Co-Lead Manager, (v) "**Selling Shareholder**" refers to BFF Luxembourg S. à r. l. and (vi) "**Offer Shares**" refer to the ordinary shares offered in this Offering, including the Over-allotment Shares as applicable.

This Offering Circular is strictly confidential and is being furnished by us in connection with an offering exempt from registration under the Securities Act solely for use in connection with the proposed Offering of our Offer Shares, as described herein. This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates, or an offer to sell or the solicitation of any offer to buy such securities by any person in any circumstances in which such offer or solicitation is unlawful.

By subscribing for or purchasing any Offer Shares pursuant to this Offering Circular, you will be deemed to have acknowledged that you have received and read this Offering Circular.

We accept responsibility for the completeness and accuracy of the information contained in this Offering Circular. To the best knowledge and belief of the members of our board, who have taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is accurate and complete in all material respects and no material facts, the omission of which would make misleading any statements of fact or opinion herein, have been omitted.

No representation or warranty, express or implied, is made by the institutional managers as to the accuracy or completeness or verification of the information contained in this Offering Circular, and nothing contained herein is, or shall be relied upon as, a promise or representation by the institutional managers in this respect, whether as to the past or future. None of the institutional managers assumes any responsibility for its accuracy, completeness or verification and accordingly the institutional managers disclaim, to the fullest extent permitted by applicable law, any and all liability whether arising in tort, contract or otherwise which they might otherwise be found to have in respect of this document or any such statement. In making an investment decision, each investor should rely on its own examination, analysis and enquiry of our Company, the Offer Shares and the terms of the Offering, including the merits and risks involved.

The institutional managers are acting exclusively for us and the Selling Shareholder and no one else in connection with the Offering. They will not regard any other person (whether or not a recipient of this document) as their respective clients in relation to the Offering and will not be responsible to anyone other than us and the Selling Shareholder for providing the protections afforded to their respective clients nor for giving advice in relation to the Offering or any transaction or arrangement referred to herein.

No person has been authorized to give any information or to make any representations other than those contained in this Offering Circular, and, if given or made, such information or representations must not be relied upon as having been authorized. Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

Neither this document nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular comes are required to inform themselves about and observe any such restrictions, including those set out in the preceding paragraphs. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. For further information on the manner of distribution of the Offer Shares, and the transfer restrictions to which they are subject, *see* "*Plan of Distribution*" and "*Transfer Restrictions*".

None of us, the Selling Shareholder, the institutional managers, or any of their respective representatives, is making any representation to any offeree or purchaser of the Offer Shares regarding the legality of an investment in the Offer Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser. Each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Offer Shares.

Prospective investors are also deemed to have acknowledged that: (i) they have not relied on the institutional managers or any person affiliated with the institutional managers in connection with any investigation of the accuracy of any information contained in this Offering Circular or their investment decision; and (ii) they have relied only on the information contained in this Offering Circular, and that no person has been authorized to give any information or to make any representation concerning us or our subsidiaries or the Offer Shares (other than as contained in this Offering Circular) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us, the Selling Shareholder or the institutional managers.

In connection with the Offering, each of the institutional managers and any of their respective affiliates, acting as an investor for its own account, may take up Offer Shares in the Offering and in that capacity may retain, purchase or sell for its own account such securities and any Offer Shares or related investments and may offer or sell such Offer Shares or other investments otherwise than in connection with the Offering. Accordingly, references in this Offering Circular to Offer Shares being offered or placed should be read as including any offering or placement of Offer Shares to any of the institutional managers or any of their affiliates acting in such capacity. None of the institutional managers intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. In addition, certain of the institutional managers or their affiliates may enter into financing arrangements (including swaps) with investors.

The Offer Shares which are the subject of the Offering will, upon admission, rank *pari passu* in all respects with each other and with all the existing shares, including the right to receive dividends or other distributions declared, made or paid after admission to trading on Borsa Italiana.

STABILIZATION

IN CONNECTION WITH THIS OFFERING, MEDIOBANCA BANCA DI CREDITO FINANZIARIO S.P.A., AS STABILIZING MANAGER (THE "STABILIZING MANAGER") (OR ANY PERSON ACTING ON BEHALF OF THE STABILIZING MANAGER) MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAW, OVER-ALLOT SHARES OR EFFECT TRANSACTIONS FOR A LIMITED TIME WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE SHARES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. HOWEVER, THERE IS NO OBLIGATION ON THE STABILIZING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILIZING MANAGER) TO DO SO AND THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR PERSON ACTING ON BEHALF OF THE STABILIZING MANAGER) WILL UNDERTAKE STABILIZATION ACTION. STABILIZATION ACTIONS, IF ANY, MAY COMMENCE ON OR AFTER THE DATE ON WHICH TRADING IN THE SHARES BEGINS ON THE MTA AND, IF COMMENCED MAY BE DISCONTINUED AT ANY TIME BUT MUST BE BROUGHT TO AN END NO LATER THAN 30 DAYS AFTER THAT DATE. SAVE AS REQUIRED BY LAW OR REGULATION, THE STABILIZING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILIZING MANAGER) WILL NOT DISCLOSE THE EXTENT OF ANY OVER-ALLOTMENTS AND/OR STABILIZATION TRANSACTIONS. THE STABILIZING MANAGER SHALL ACT IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.

NOTICES

NOTICE TO PROSPECTIVE QUALIFIED INVESTORS IN ITALY

This Offering Circular has not been submitted to the *Commissione Nazionale per le Società e la Borsa*, the Italian Securities Exchange Commission ("**CONSOB**"), for clearance and will not be subject to formal review or clearance by CONSOB. Our shares may not be offered, sold or delivered, directly or indirectly in the Republic of Italy or to a resident of the Republic of Italy, unless such offer, sale or delivery of shares or distribution of copies of this Offering Circular or other documents relating to the Offering in the Republic of Italy are:

(a) pursuant to the Consolidated Financial Act (as defined below), made only to "**qualified investors**" (*investitori qualificati*), as defined pursuant to Article 34-*ter*, first paragraph, letter b), of CONSOB regulation No. 11971 of May 14, 1999, as amended, concerning issuers (the "**Issuers' Regulation**" implementing Article 100 of the Consolidated Financial Act; or

(b) in any other circumstance where an express exemption with the regulations on offers to the public applies, including, without limitation as provided under Article 100 of the Consolidated Financial Act and Article 34-*ter* of the Issuers' Regulation.

Any such offer, sale or delivery of the Offer Shares or distribution of copies of the Offering Circular or any other document relating to the Offering in the Republic of Italy must be in compliance with the selling restrictions under items (a) and (b) above and must be:

(i) made by *soggetti abilitati* (including investment firms, banks or financial intermediaries, as defined by Article 1, first paragraph, letter r), of the Consolidated Financial Act), to the extent duly authorized to engage in the placement and/or underwriting and/or purchase of financial instruments in the Republic of Italy in accordance with the relevant provisions of the Consolidated Financial Act, CONSOB Regulation 16190 of October 29, 2007, as amended, Legislative Decree No. 385 of September 1, 1993, as amended (the "**Consolidated Banking Act**") and any other applicable laws and regulations; and

(ii) in compliance with any other applicable requirements or limitations which may be imposed by CONSOB, the Bank of Italy or any other Italian regulatory authority.

Any investor purchasing the Offer Shares is solely responsible for ensuring that any offer or resale of the Offer Shares it purchased occurs in compliance with applicable laws and regulations.

In accordance with Article 100—*bis* of the Consolidated Financial Act, the subsequent resale on the secondary market in the Republic of Italy of the Offer Shares (which were part of an offer made pursuant to an exemption from the obligation to publish a prospectus) constitutes a distinct and autonomous offer that must be made in compliance with the public offer and prospectus requirement rules provided under the Consolidated Financial Act and Issuers' Regulation unless an exemption applies. Failure to comply with such rules may result in the subsequent resale of such shares being declared null and void and the intermediary transferring the Offer Shares may be liable for any damage suffered by the investors.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES OF AMERICA

The Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered, sold, pledged or otherwise transferred except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable U.S. state securities laws. Please refer to the section of this Offering Circular entitled "*Transfer Restrictions*".

The Offer Shares have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor have the foregoing authorities passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense in the United States.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

This Offering Circular and any other document issued in connection with the offering of the Offer Shares is confidential, and has not been (and will not be) approved by a person authorized under the Financial Services and Markets Act 2000 ("**FSMA**"). In the United Kingdom, this Offering Circular is being distributed to, and is directed only at persons who; (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"), (ii) are high-net-worth entities and other persons falling within Article 49(2)(a) to (d) of the Order; or (iii) are persons to whom it may lawfully be communicated in accordance with the Order (all such persons being together referred to as "**Relevant Persons**"). In the United Kingdom, this Offering Circular is directed only at Relevant Persons and must not be acted on or relied upon by persons who are not Relevant Persons. Any investment or investment activity to which this Offering Circular relates is available only to Relevant Persons in the United Kingdom and will be engaged in only with Relevant Persons. All applicable provisions of the FSMA must be complied with in respect of anything done in relation to the Offer Shares in, from or otherwise involving the United Kingdom. The Offer Shares are not being offered to the public in the United Kingdom within the meaning of the FSMA. The Offer Shares may only be lawfully offered or sold to persons in the United Kingdom in compliance with all applicable provisions of the FSMA and the Order.

NOTICE TO PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA

This Offering Circular has been prepared on the basis that all offers of shares, other than the offers contemplated in Italy once the Italian Prospectus has been approved by CONSOB in Italy and published in accordance with the Prospectus Directive as implemented in Italy, will be made pursuant to an exemption from the requirement to produce a prospectus for offers of our shares under the Prospectus Directive, as implemented in Member States of the European Economic Area ("**EEA**"). Accordingly, any person making or intending to make any offer of shares in each Member State of the EEA (each, a "**Relevant Member State**") should only do so in circumstances in which no obligation arises for us, any of the Selling Shareholder or any of the Joint Global Coordinators to produce or supplement a prospectus for such an offer. Neither we, the Selling Shareholder nor any of the institutional managers, have authorized, nor do they authorize, the making of any offer of shares through any financial intermediary, other than offers made by institutional managers which constitute the final placement of the Offer Shares contemplated in this Offering Circular. Please refer to the section of this Offering Circular entitled "*Transfer Restrictions*". For the purposes of this Offering Circular, the expression "**Prospectus Directive**" means Directive 2003/71/EC and any amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State and includes any relevant implementing measure in Member States of the EEA and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

NOTICE TO PROSPECTIVE INVESTORS IN SWITZERLAND

The Offer Shares will not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange Ltd. ("**SIX**") or on any other stock exchange or regulated trading facility in Switzerland. This Offering Circular has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland.

Neither this Offering Circular nor any other offering or marketing material relating to the Offering, us or the Offer Shares has been or will be filed with or approved by any Swiss regulatory authority. In particular, this Offering Circular will not be filed with, and the offer of Offer Shares will not be supervised by, the Swiss Financial Market Supervisory Authority ("**FINMA**"), and the offer of Offer Shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes ("**CISA**"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Offer Shares.

This Offering Circular as well as any other material relating to the Offer Shares are personal and confidential and do not constitute an offer to any other person. This Offering Circular may only be used by those investors to whom it has been sent in connection with the offering described herein and may neither directly nor indirectly be distributed or made available to other persons without our express consent. It may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in (or from) Switzerland.

NOTICE TO PROSPECTIVE INVESTORS IN THE DUBAI INTERNATIONAL FINANCIAL CENTER

This Offering Circular relates to an exempt offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("**DFSA**"). This Offering Circular is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with exempt offers. The DFSA has not approved this Offering Circular nor taken steps to verify the information set forth herein and has no responsibility for the Offering Circular. The Offer Shares to which this Offering Circular relates may be illiquid and/or subject to restrictions on their resale. Prospective investors of the Offer Shares offered should conduct their own due diligence on the Offer Shares.

In relation to its use in the Dubai International Financial Center ("**DIFC**"), this Offering Circular is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the Offer Shares may not be offered or sold, directly or indirectly, to the public in the DIFC.

NOTICE TO PROSPECTIVE INVESTORS IN AUSTRALIA

This Offering Circular does not constitute a disclosure document under Chapter 6D of the Australian Corporations Act 2001 (Corporations Act) or a product disclosure statement under Chapter 7 of the Corporations Act and will not be lodged with the Australian Securities and Investments Commission. Notwithstanding the above, if this Offering Circular is received in Australia any offer pursuant to it is void and incapable of acceptance other than to the extent that it has been received by any person who is:

(a) a "sophisticated investor" under section 708(8) (a) or (b) of the Corporations Act 2001 (Cth) of Australia;

(b) a "sophisticated investor" under section 708(8) (c) or (d) of the Corporations Act who has provided an accountant's certificate to the Company which complies with the requirements of section 708(8)(c)(i) or (ii) of the Corporations Act;

(c) a "professional investor" within the meaning of section 708(11) of the Corporations Act; or

(d) a "wholesale client" for the purposes of section 761G(7) of the Corporations Act (and related regulations) who has complied with all relevant requirements in this respect.

Offer Shares must not be offered for resale within Australia within 12 months of them being issued unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

No financial product advice is provided in the documentation related to this offer and nothing in the documentation should be taken to constitute a recommendation or statement of opinion that is intended to influence you in making a decision to participate in the offer. Any advice contained in the documentation should be seen as general advice only and does not take into account the objectives, financial situation or needs of any particular person. Neither we nor any of our related bodies corporate is licensed to provide financial product advice and before acting on the information contained in the documentation, or making a decision to participate in the offer, you should consider seeking professional financial product advice from an independent person licensed by the Australian Securities and Investments Commission to give such advice. Neither a prospectus nor a Product Disclosure Statement has been or will be issued in relation to this offer. No cooling-off regime applies to the financial products offered to you pursuant to this Offering Circular or any accompanying documentation.

NOTICE TO PROSPECTIVE INVESTORS IN CANADA

The Offer Shares may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Offer Shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Circular (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* ("**NI 33-105**"), the institutional managers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with the Offering.

OTHER JURISDICTIONS

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any shares in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of shares may be restricted by law in certain jurisdictions. We, the Selling Shareholder and the institutional managers do not represent that this Offering Circular may be lawfully distributed, or that any shares may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to any exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by us, the Selling Shareholder or the institutional managers which would permit a public offering of any shares outside Italy or distribution of this Offering Circular (or any other offering or publicity materials or application form(s) relating to the Offer Shares) in any jurisdiction where action for those purposes is required. Accordingly, no shares may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possessions this Offering Circular or any shares may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of the Offer Shares. See also "*Plan of Distribution—Selling Restrictions*" for a description of certain restrictions on the offer and sale of shares in the Offering.

SERVICE OF PROCESS AND ENFORCEABILITY OF JUDGMENTS

We are incorporated as a *società per azioni* (joint stock company) organized under the laws of the Republic of Italy. All of our directors and officers and all or a significant portion of the assets of such directors and officers are located outside of the United States, principally in Italy, and all of our assets are located outside the United States, principally in Italy. As a result, it may be difficult or impossible for investors to effect service of process within the United States upon us or any such other persons, or to enforce against us or any such persons judgments obtained in a United States court predicated upon common law or the civil liability provisions of the federal or state securities laws of the United States. In addition, awards of punitive damages in actions brought in the United States or elsewhere may not be enforceable in Italy.

We have been advised that pursuant to Law No. 218 of May 31, 1995, as amended: (i) recognition and enforceability in Italy of final judgments of U.S. courts, including judgments obtained in actions predicated upon the civil liability provisions of the federal securities laws of the United States, would not require retrial on the merits in Italy, subject, among other things, to the occurrence of the following requirements: (a) the absence of a conflicting final judgment by an Italian court, (b) the absence of an action pending in Italy among the same parties and arising from the same facts and circumstances commenced prior to the commencement of the action in the United States, (c) an Italian court's determination that U.S. courts had jurisdiction according to Italian law, that process was appropriately served on the defendant in accordance with U.S. law and that such judgment does not violate Italian public policy, (d) appearance before the court by parties to the trial or, in the event of default by the defendant, the U.S. court's declaration of such default in accordance with U.S. law; and (e) the judgment being final and not subject to any further appeal in accordance with U.S. law; and (ii) in original actions brought before Italian courts to enforce the civil liability provisions of the securities laws of the United States, an Italian court will examine the claims in accordance with Italian rules of civil procedure and could apply U.S. substantive laws; however, even though such an Italian court could apply U.S. substantive law, it might apply certain domestic provisions of substantive Italian law that are regarded as mandatory in an international context. In original actions brought before Italian courts there is doubt as to the enforceability of liabilities based on U.S. securities law.

AVAILABLE INFORMATION

In accordance with Italian regulations, after the Listing Date we will make publicly available, but we will not mail to shareholders: (i) an annual report containing audited consolidated financial statements for each year, no later than April 30 of the following year (which may be extended to June 30 of the following year in certain circumstances); and (ii) an interim report containing consolidated financial statements that are subject to a limited review, not constituiting an audit, by external auditors, for the first six months of each year, no later than September 30 of that year.

We are not currently required to file periodic reports under Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). In order to preserve the exemption for resales and transfers under Rule 144A, for so long as any shares remain outstanding and are "**restricted securities**" within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b), furnish, upon request, to any holder of our shares, or any prospective purchaser designated by any such holder, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

We will also furnish certain information to Borsa Italiana, which is responsible for managing and overseeing the MTA.

CERTAIN DEFINITIONS

The following terms used in this Offering Circular have the meanings assigned to them below.

"**Borsa Italiana**"	The Italian stock exchange Borsa Italiana S.p.A., a company incorporated under the laws of Italy, with its registered office in Milan, at Piazza degli Affari, 6.
"**Company**"	Banca Farmafactoring S.p.A. together with its consolidated subsidiaries, unless otherwise stated.
"**CONSOB**"	The *Commissione Nazionale per le Società e la Borsa*, the Italian Securities Exchange Commission, with its registered office in Rome, at Via G.B. Martini, 3.
"**Consolidated Banking Act**"	Legislative Decree No. 385 of September 1, 1993, as amended.
"**Consolidated Financial Act**"	Legislative Decree No. 58 of February 24, 1998, as amended.
"**Eastern European Market**"	Collectively, the markets of Poland, Slovakia and Czech Republic.
"**EEA**"	European Economic Area.
"**EU**"	European Union.
"**Euro**", "**euro**", "**EUR**" or "**€**"	The lawful currency of the EU Member States participating in European Monetary Union.
"**Eurozone**"	The EU Member States that utilize the Euro as an official currency.
"**GDP**"	Gross domestic product.
"**Group**"	The Company and its subsidiaries.
"**IAS**"	International Accounting Standards.
"**IFRS**"	International Financial Reporting Standards as adopted by the European Union.
"**IRES**"	The Italian corporate income tax.
"**Issuers' Regulation**"	CONSOB regulation No. 11971 of May 14, 1999, as amended.
"**Italian Civil Code**"	The Italian civil code (*codice civile*) approved by the Royal Decree No. 262 of March 16, 1942, as subsequently amended and restated.
"**Italian Prospectus**"	The tripartite prospectus in the Italian language in connection with the Offering, including collectively the *Documento di Registrazione*, *Nota Informativa*, and *Nota di Sintesi*, respectively approved by CONSOB pursuant to applicable Italian law on December 23, 2016, March 22, 2017 and March 22, 2017.
"**Italy**"	The Republic of Italy.
"**Magellan**"	Magellan S.A., a company organized under the laws of Poland.

"**Magellan Acquisition**"	The acquisition, which occurred on June 3, 2016, of the Magellan Group by Banca Farmafactoring, via a tender offer, through the Polish subsidiary Mediona. Mediona acquired a total of 6,526,941 shares of Magellan, corresponding to 97.13% of its share capital (net of Magellan own shares).
"**Mediona**"	Mediona spółka z ograniczoną odpowiedzialnością, a company organized under the laws of Poland.
"**Monte Titoli**"	Monte Titoli S.p.A., a centralized securities clearing system owned by Borsa Italiana.
"**MTA**"	The *Mercato Telematico Azionario*, the Italian screen-based trading system managed by Borsa Italiana.
"**Prospectus Directive**"	Directive 2003/71/EC and any amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State and includes any relevant implementing measure in Member States of the EEA
"**Offer Shares**"	The ordinary shares offered in this Offering, including the Over-allotment Shares as applicable.
"**Offering**"	The Shares are initially being offered to (i) institutional investors outside the United States pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**", and (ii) in the United States only to qualified institutional buyers ("**QIBs**") as defined in Rule 144A under the Securities Act.
"**Offering Circular**"	The Offering Circular in relation to the Offer Shares.
"**Securities Act**"	The U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.
"**Self-Regulatory Code**"	The Italian self-regulatory code for listed companies provided by the corporate governance committee for publicly traded companies and published in March 2006.
"**Selling Shareholder**"	BFF Luxembourg S.à r.l.
"**Southern European Market**"	Collectively, the markets of Italy, Spain and Portugal.
"**Traditional Activities**"	Credit Collection Management and Non-recourse Factoring activities carried out by the Company and Farmafactoring España in Italy, Spain and Portugal.
"**United States**" or "**U.S.**"	The United States of America, its territories and possessions, any state of the United States of America and the District of Columbia.
"**U.S. Dollars**", "**dollars**", "**U.S.$**" or "**$**"	The lawful currency of the United States.
"**we**", "**us**", "**our**"	Except where the context requires or where otherwise indicated, the Company, together with its consolidated subsidiaries.
"**UCITS**"	Mutual funds that are marketed within the European Union.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In making an investment decision, prospective investors must rely upon their own examination of the financial statements and financial information included elsewhere in this Offering Circular and should consult their professional advisors for an understanding of: (i) the differences between IFRS and other systems of generally accepted accounting principles and how those differences might affect the financial information included in this Offering Circular; and (ii) the impact that future additions to, or amendments of, IFRS principles may have on the Group's results of operations and/or financial condition, as well as on the comparability of prior periods.

Financial Statements

Group Financial Statements

Our consolidated financial information included in this Offering Circular has been derived from the documents described below:

(i) Our consolidated financial information as of and for the year ended December 31, 2016, set forth in this Offering Circular has been extracted or derived from the consolidated financial statements as of December 31, 2016, approved by the Group's Board of Directors on February 13, 2017 and audited by independent auditors which issued their report as of February 20, 2017 (hereinafter the "**2016 Annual Consolidated Financial Statements**");

(ii) Our consolidated financial information as of and for the years ended December 31, 2013, 2014 and 2015, set forth in this Offering Circular has been extracted or derived from the consolidated financial statements of the Group as of and for the year ended December 31, 2015, 2014 and 2013, approved by the Group's Board of Directors on March 31, 2016 and audited by the independent auditors which issued their report on April 8, 2016 (hereinafter the "**Consolidated Financial Statements**");

The Consolidated Financial Statements are included in the F-Pages to this Offering Circular, and should be read in conjunction with the relevant notes thereto. Unless otherwise disclosed, the Consolidated Financial Statements have been prepared in accordance with IFRS as adopted by the European Union and in accordance with the instructions of the Bank of Italy set forth in Circular No. 262 of December 22, 2005, as amended. It should be noted that purchased receivables refers exclusively to receivables within the Group's factoring operations.

Magellan Group Financial Statements

We have included in this Offering Circular certain limited financial information in respect of Magellan S.A. ("**Magellan**") and its subsidiaries (the "**Magellan Group**"). The financial information included in this Offering Circular has been derived from the documents described below, which are each publicly available, but which are not incorporated herein by reference:

(i) The Magellan Group's financial information as of and for the year ended December 31, 2016, set forth in this Offering Circular has been extracted or derived from the annual consolidated financial statements as of December 31, 2016, approved by the board of directors of Magellan on February 8, 2017 (hereinafter the "**Magellan 2016 Annual Consolidated Financial Statements**"); and

(ii) The Magellan Group's financial information as of and for the years ended December 31, 2015, set forth in this Offering Circular has been extracted or derived from the consolidated financial statements of Magellan as of and for the year ended December 31, 2015, approved by the board of directors of Magellan on March 18, 2016 and audited by the independent auditors which issued their report on March 18, 2016 (hereinafter the "**Magellan 2015 Annual Consolidated Financial Statements**").

We believe the included information provides the necessary material information for potential investors to evaluate Magellan and its subsidiaries within the context of our Group.

Unaudited Pro-Forma Financial Information

This Offering Circular also includes the Group's unaudited pro-forma financial information, which has been extracted or derived from the unaudited pro-forma consolidated income statement and the pro-forma consolidated statement of cash flows for the year ended December 31, 2016 with illustrative notes (hereinafter the "**Unaudited Pro-Forma Financial Information**"). The Unaudited Pro-Forma Financial Information has been approved by our Board of Directors on February 22, 2017 and examined by the Independent Auditors, who issued their report on February 22, 2017, regarding the reasonableness of the basic assumptions adopted, the accuracy of the methods applied and the accuracy of the valuation criteria and accounting principles used.

The Unaudited Pro-Forma Financial Information has been prepared solely in connection with the Offering. More specifically, the Unaudited Pro-Forma Financial Information has been prepared for the purpose of presenting the main estimated effects on our consolidated income statement and statement of cash flows for the year ended December 31, 2016 of the Magellan Acquisition.

The details contained in the Unaudited Pro-Forma Financial Information represent a simulation prepared solely to illustrate the effects the Magellan Acquisition may have had if it had taken place on January 1, 2016 to income statement and statement of cash flows effects. In particular, given that the Unaudited Pro-Forma Financial Information has been based on available information and prepared to retrospectively reflect the effects of subsequent transactions, despite complying with generally accepted regulations and using reasonable assumptions, there are limitations associated with the nature of the Unaudited Pro-Forma Financial Information. Therefore, the Unaudited Pro-Forma Financial Information does not purport to represent what our actual results of operations would have been if these transactions had actually occurred on the dates assumed, nor is it necessarily indicative of future consolidated results of operations or financial condition. Had the Magellan Acquisition actually occurred on the dates assumed above, the effects would not necessarily have been the same as those presented in the Unaudited Pro-Forma Financial Information. Moreover, given the different purpose of the Unaudited Pro-Forma Consolidated Financial Statements compared to the Consolidated Financial Statements and the different methods of calculating the effects of the Magellan Acquisition on the unaudited pro-forma consolidated income statement and the unaudited pro-forma consolidated statement of cash flows for the year ended December 31, 2016, these documents should be read and interpreted without attempting to reconcile them.

The Unaudited Pro-Forma Financial Information is not in any way intended to be a forecast of our future results and therefore should not be construed in this sense. The Unaudited Pro-Forma Financial Information is included in the P-Pages to this Offering Circular, and should be read in conjunction with the relevant notes thereto. See "*Risk Factors—Our financial position and results of operations may differ materially from the unaudited pro-forma financial information included in this Offering Circular*".

Unless otherwise indicated, the financial information presented in the "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" section in this Offering Circular and elsewhere in this Offering Circular is derived from the consolidated financial statements and the Unaudited Pro-Forma Financial Information.

Change in the method used to estimate the recoverability of late payment interest

During 2014, we changed the method used to estimate the recoverability of late payment interest. Therefore, this change does not permit a like-for-like comparison of the financial information for the year ended December 31, 2014 with those for the year ended December 31, 2015 included in this Offering Circular. The financial information for the year ended December 31, 2016 and 2015 permits a like-for-like comparison as they both use the same new method used to estimate the recoverability of late payment interest.

We calculate late payment interest, excluding Magellan, on receivables that we have purchased on a non-recourse basis in accordance with applicable laws (Legislative Decree No. 231/2002 "Implementation of Directive No. 2000/35/EC on combating late payments in commercial transactions" and similar provisions for Spain and Portugal). In accordance with EU IFRS (IAS 18), interest income should be recognized in an income statement only if it is likely to generate positive cash flows for the entity and if their amount can be estimated reliably.

Until December 31, 2013, we lacked sufficiently large databases regarding recoverability percentages and timing of late payment interest to make meaningful predictions for application in our financial statements. Therefore, we did not record late payment interest not yet invoiced to the debtors, and instead we cancelled any credit arising from late payment interest to its receivables by means of creation of a specific reserve recorded as a reduction of assets. Concurrently with the collection of the late payment interest invoice (even if not collected), the income statement was updated to include these amounts, based on the percentage of actual recovery.

In 2014, we acquired evaluation tools that allow us to collect historical data, such as time series of data, and calculate reliable estimates of late payment interests that will be collected and the corresponding timing for collection. From the year ended December 31, 2014, we have estimated, on the basis of our historical data on collected amounts and timing for collection for the period 2010-2014, the percentage of the amount of late payment interest that will be collected to be equal to 40% of its accrued value at the date of the predictable collection, and collected within an estimated period of 1800 days. During 2016, we further updated our data to include the results of the financial years 2015 and 2016 and revised these estimates. Starting from January 1, 2017 our Board of Directors, on the basis of our historical data on collected amounts and timing for collection, and in relation to the portfolio of purchased receivables in our Traditional Activities, has resolved upon a variation of the estimated amount of late payment interest collection, which will result in an increase in the estimation of the percentage of the amount of late payment interest that will be collected up to 45%.

This change in the method of estimating the recoverability of late payment interest resulted in significant income equal to €113,396 thousand recorded in the income statement, of which €12,814 thousand was related to receivables accounted for in 2014 and €100,582 thousand accounted for in previous years. Going forward, starting from 2015, the income statement will only reflect accrued late payment interest on receivables attributable to each year and gains, if the amount collected was higher than the amount estimated or losses if the collection was deferred. As of December 31, 2015 and 2014, late payment interest amounted, respectively, to €460 million and €427 million (including €151,055 thousand recognized in the income statement for 2015 and previous years, not yet collected). As of December 31, 2016, late payment interest, excluding Magellan, amounted to €547 million (including €186 million recognized in the income statement for the first three months of 2016 and previous years, not yet collected). Furthermore this change in the method of estimating the recoverability of late payment interest will result in a one-off increase in net profits and own funds equal to a net amount of €18 million.

Non-IFRS Measures

This Offering Circular contains historical financial and operating indicators and non-IFRS measures, which are used by our management to monitor our financial and operating performance, including ROTE, Loan to Deposit ratio, ROE, EBTDA, RoRWA, RWA density, Leverage Ratio, DSO, ROA, Cost/income ratio, Dividend payout ratio, Total volumes, Operating income/average due from customers, Net interest margin/interest income and similar revenues, Operating costs/average due from customers, Non-performing exposures (net of impairment)/loans and receivables with customers-factoring, Leverage ratio (Pillar III), Total collections, Purchases of non-recourse receivables, Collections of non-recourse receivables, Average receivables from customers, Average assets, dividend per share paid, ROE adjusted, Cost/income ratio adjusted, ROA adjusted, ROE normalized, EBTDA normalized, RoRWA normalized, Cost/income ratio normalized, ROA normalized, Dividend payout ratio normalized, ROE normalized adjusted, Cost/income ratio normalized adjusted, ROA normalized adjusted. It should be noted that such measures are not recognized as measures of financial performance or liquidity under IFRS.

In addition, this Offering Circular includes certain "Adjusted" financial and operating indicators and non-IFRS measures, which have been adjusted to reflect extraordinary events, non-recurring transactions and activities which are not directly related to our ordinary business. Management has included the "Adjusted" information to allow a better comparison of financial information across the periods. It should be noted that such measures are not recognized as measures of financial performance or liquidity under IFRS.

Investors should not place any undue reliance on the historical or adjusted non-IFRS measures and financial indicators and should not consider these measures as: (i) an alternative to operating income or net income as determined in accordance with IFRS, or as measures of operating performance, (ii) an alternative to cash flows from operating, investing or financing activities, as determined in accordance with IFRS, or as a measure of our ability to meet liquidity needs, or (iii) an alternative to any other measures of performance under IFRS. These measures are not indicative of our historical operating results, nor are they meant to be predictive of future results. These measures are used by our management to monitor the underlying performance of the business and the operations. Since all companies do not calculate these measures in an identical manner, our presentation may not be consistent with similar measures used by other companies. Therefore, investors should not place undue reliance on this data.

A more detailed explanation of each of the financial indicators and non-IFRS measures, together with relevant reconciliations, is provided in section "*Selected Financial Information and Other Data*".

Other information

Unless otherwise stated in this Offering Circular, references to financial information for the periods as of and for the year ended December 31, 2016, 2015, 2014, refers to our Consolidated Financial Statements, and only where indicated to the Unaudited Pro-Forma Financial Information.

This financial information is used by our management to analyze our business performance and our financial results in our year-end and interim financial reports.

Except where indicated, reference to IFRS in this Offering Circular are solely to IFRS as currently adopted by the European Union for use in the European Union.

Merely for convenience, this Offering Circular contains translations of certain Euro amounts into U.S. dollars at specified rates. These translations should not be construed as representations that the Euro amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. *See* "*Currencies and Exchange Rates*" for more information.

Rounding

Certain numerical figures set out in this Offering Circular, including financial data presented in millions or in thousands and certain percentages, have been subject to rounding adjustments and, as a result, the totals of the data in columns or rows of tables in this Offering Circular may vary slightly from the actual arithmetic totals of such information and from the related figures presented in the Consolidated Financial Statements and the Unaudited Pro-Forma Financial Information.

Websites

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

INDUSTRY AND MARKET DATA

In this Offering Circular, we rely on and refer to information regarding our business and the market in which we operate and compete. Certain market data and economic and industry data and forecasts used in this Offering Circular were obtained from governmental and other publicly available information, independent industry publications and reports prepared by industry consultants.

In addition to the foregoing, certain information regarding markets, market size, market share, market position, growth rates and other industry data pertaining to our business contained in this Offering Circular were estimated or derived based on assumptions we deem reasonable and from our own research, surveys or studies and experience. In this Offering Circular, unless we have indicated in the text the direct source material from which we obtained such industry and market data, you should assume it is management information or extrapolated by our management based on relevant available data. In particular, in preparing information to include in this Offering Circular we relied primarily on data derived from the following official or third party sources:

- Assifact: The Italian Factoring Association, apolitical and non-profit entity, established with the purpose of gathering factoring operators and promoting a stable development of the factoring market. The association aims at collaborating to the analysis and solution of the problems about factoring, through studying and providing information and technical assistance and through a harmonized representation of the industry interests toward the financial and economic system, the monetary and supervision authority, the public entities.
- Istat: The Italian National Institute of Statistics is a public research organization. It is the main producer of official statistics in the service of citizens and policy-makers. It operates independently and in continuous interaction with the academic and scientific communities.
- Eurostat: Eurostat is the statistical office of the European Union situated in Luxembourg. Its task is to provide the European Union with statistics at European level that enable comparisons between countries and regions.
- Bank of Italy: the Bank of Italy is the central bank of Italy.
- Factor Chain International: FCI is the global representative body for factoring and financing of open account domestic and international trade receivables.
- Asociación Española de Factoring ("**AEF**") is the factoring association in Spain. Its task is to act as a meeting point for all the companies operating in the factoring business so as to represent them as one voice before the authorities and public administration.
- Instituto Nacional de Estatística: the Instituto Nacional de Estatística is the national statistical institute of Portugal.

In certain limited cases, we have also examined publicly available information concerning IOS Finance, our sole direct competitor in the Spanish market among specialist and independent operators. In light of the absence of publicly available information on a significant proportion of participants in the industry, the data on market share, market sizes and projected growth rates should be viewed with caution and undue reliance should not be placed thereon. Our internal estimates have not been verified by any independent sources and neither we nor the Joint Global Coordinators can assure you as to their accuracy or the accuracy of the underlying assumptions used to estimate such data.

In considering the industry and market data included in this Offering Circular, prospective investors should note that this information may be subject to significant uncertainty due to differing definitions of the relevant markets and market segments described. In many cases, there is no readily available external information (whether from trade associations, government bodies or other organizations) to validate market-related analyzes and estimates, thus requiring us to rely on internally developed data.

All estimates involve risks and uncertainties and are subject to changes based on various factors. The projections and forward-looking statements in this Offering Circular are not guarantees of future performance, and actual events and circumstances could differ materially from current expectations. *See* "*Risk Factors*", "*Industry*" and "*Business*" for further discussion.

CURRENCIES AND EXCHANGE RATES

The following table sets forth, for the periods set forth below, the high, low, average and period end Bloomberg Composite Rate exchange rate information. The Bloomberg Composite Rate is a "best market" calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate. The rates may differ from the actual rates used in the preparation of the Consolidated Financial Statements and other financial information appearing in this Offering Circular. We do not make any representation that any amount of currencies specified in the table below has been, or could be, converted into the applicable currency at the rates indicated or any other rate.

The average rate for a year means the average of the Bloomberg Composite Rates on the last day of each month during a year. The average rate for a month or for any shorter period, means the average of the daily Bloomberg Composite Rate during that month, or shorter period, as the case may be.

The Bloomberg Composite Rate of the Euro on March 22, 2017 was $1.0811 per €1.00.

	Period Average(1)(2)	High	Low	Period End(3)
		(U.S.$ per €1.00)		
Year				
2010	1.3266	1.4513	1.1923	1.3387
2011	1.3926	1.4830	1.2907	1.2959
2012	1.2860	1.3458	1.2061	1.3192
2013	1.3285	1.3804	1.2780	1.3742
2014	1.3283	1.3925	1.2100	1.2100
2015	1.1096	1.2051	1.0527	1.0910
2016	1.1069	1.1532	1.0389	1.0520
Month				
January 2017	1.0626	1.0798	1.0405	1.0798
February 2017	1.0652	1.0786	1.0537	1.0576
March 2017 (through March 22)	1.0652	1.0811	1.0506	1.0811

(1) The average rate for a year means the average of the Bloomberg Composite Rates on the last day of each month during a year.

(2) The average rate for each month presented is based on the average Bloomberg Composite Rate for each business day of such month.

(3) Represents the exchange rate on the last business day of the applicable period.

On January 8, 2016 we launched a tender offer which lead to our purchase of the subsidiary Magellan S.A., a Polish joint stock company operating in the financial services market for the healthcare sector and public sector (see *"Business—Magellan Acquisition"* for more details). The national currency of Poland is the Zloty (PLN). On the day prior to the launch of the tender offer the PLN/Euro exchange rate was 1 PLN = 0.23043 EUR. As of December 31, 2016, 2015 and 2014 the PLN/Euro exchange rate was equal to, respectively, 1 PLN = 0.22699 EUR, 1 PLN = 0.23426 EUR, 1 PLN = 0.23345 EUR. Furthermore, the financial data included in the Unaudited Pro-Forma Financial Information has been restated to reflect the banking model adopted by the Group. Magellan's income statement and statement of cash flows was converted into Euro using an average PLN/Euro exchange rate of approximately 0.2292 for the year ended December 31, 2016 and of approximately 0.2390 for the year ended December 31, 2015. In addition, a portion of our asset portfolio is expressed also in Czech koruna (CZK), the national currency of Czech Republic. As of December 31, 2016, 2015 and 2014 the CZK/Euro exchange rate was equal to, respectively, 1 CZK = 0.0370 EUR, 1 CZK = 0.0370 EUR, 1 CZK = 0.0361 EUR.

In certain instances we provide information in both PLN and Euro for your convenience, and generally utilize the rate from December 31, 2016 for any financial information or the exchange rate as of the date of the Magellan Acquisition for information regarding that transaction. However, the rates may differ from the actual rates used in relation to financial information contained in this Offering Circular. We do not make any representation that any amount of currencies at the rates indicated above has been, or could be, converted into the applicable currency at the rates indicated or any other rate.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains and refers to certain forward-looking statements with respect to our financial condition, results of operations, business and prospects. Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. Forward-looking statements include, among others, statements concerning the potential exposure to market risks and statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements.

Forward-looking statements are typically identified by words such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "objectives", "outlook", "probably", "project", "will", "seek", "target" and other words of similar meaning in connection with a discussion of future operating or financial performance. All of these forward-looking statements are based on estimates and assumptions made by such entities that, although believed to be reasonable, are inherently uncertain. Therefore, undue reliance should not be placed upon any forward-looking statements. There are important factors that could cause actual results to differ materially from those contemplated by such forward-looking statements. These factors include, among others, statements relating to:

- the current volatile macroeconomic environment globally and in the countries in which we operate that impacts our business and results;
- the dependence of our business on our customers and the debtors that they supply, each of whom may face economic uncertainty and changes in the regulatory landscape which could impact their need for our services;
- the significant portion of our revenue which we derive from a limited range of services provided in a limited set of geographies;
- the significant portion of our revenue which we derive from a limited number of customers;
- the incorrect evaluation by us of DSO relative to the payments of the debtors;
- our heavy reliance on non-recourse factoring which prevents us from benefitting from the legal protections of the guarantee of solvency;
- the creditworthiness of our counterparties which may deteriorate;
- the possible implementation of efficiency measures by the government that could significantly reduce DSO and demand for our services;
- regulatory measures applicable to our business in the future may have an adverse impact on us;
- the yearly contributions we make to the Single Resolution Fund and the Interbank Deposit Guarantee Fund and the additional contributions we may be required to make;
- the minimum capital adequacy requirements we may be unable to meet;
- the implementation of the MREL requirements or possible future amendments to the current regulatory framework on MREL may affect our capital structure;
- adverse changes in the creditworthiness of the Republic of Italy that may have an adverse impact on us;
- our dependence on access to the capital markets to maintain certain levels of liquidity and to obtain long-term financing that could have a material adverse effect on our business, financial condition, or results of operation;
- our failure to monetize assets we pledge as collateral under some of our funding sources;
- the seasonal fluctuations in our volumes that may result in disruptions to our operations;
- our failure to meet the objectives of our growth strategy;
- our failure to successfully integrate Magellan's business;
- the invalidation of certain products provided by Magellan by the Polish Supreme Court;

- our business being exposed to a variety of operational risks, including fraud, errors, security breaches or other adverse events, some of which are wholly or partially out of our control;
- any malfunction or defect in our information and technology ("IT") systems that could materially impact our ability to operate our business;
- any failure to properly treat data of our customers that may lead to reputational damage or legal liability;
- our risk management policies, procedures and methods that may leave us exposed to unidentified or unanticipated risks;
- our dependence on third-party suppliers and service providers;
- our failure to attract and retain key personnel;
- disputes, investigations and legal proceedings we are involved in which could have a material adverse effect on us or on our recovery capability;
- regular inspections by the bank of Italy we are subject to and the measures set out by the regulators which we are required to implement;
- calculation methods used to estimate the recoverability of the late payment interest which may impact our ability to accurately predict our cash flows;
- our financial position and results of operations materially diverging from the Unaudited Pro-Forma Financial Information included in this Offering Circular;
- limited operating flexibility due to our significant outstanding indebtedness, some of which contain restrictive debt covenants;
- risks related to our notes and to our loan agreements;
- ongoing liability that we face under our securitization arrangement;
- our lack of a credit rating which could hinder our ability to access funding;
- significant related party transactions we have with our affiliates;
- our dependence on certain customary inefficiencies and payment delays in the national healthcare systems in the countries in which we operate;
- the possible request of the Italian government to the European Commission to allow it to grant "state aid" in order to combat the impact of the financial crisis;
- the dependence of our business on continued government spending on national healthcare and other segments of the public administration;
- the extension of the introduction of the so-called "split payment" of VAT for transactions involving public bodies and its possible impact on the way we operate our business;
- the possible material impact on our financial position due to changes in tax laws or the tax rate to which we are subject;
- the regulations which require us to avoid significant debtor concentration;
- our failure to accurately predict future fluctuations in interest rates;
- the highly competitive market in which we operate and our failure to maintain or increase our current market share;
- the possible significant impact which the implementation of the BRRD, and in particular its bail-in provisions, could have on our shareholders by shifting losses to them;
- the interests of the Selling Shareholder not being aligned with our interests or those of the holders of our ordinary shares;
- the risk of conflicts of interest due to the members of our management, including the Chief Executive Director and Senior Managers, being Shareholders;
- the possible lack of development of an active and liquid trading market for our shares and the possible volatility of the market price of our shares;

- the possible decrease of the price of our shares as lock-up agreements expire;
- our failure to continue to distribute dividends as we have in previous years;
- the conflicts of interest which our relationships with the Joint Global Coordinators may present;
- shareholders not being able to enforce civil liability provisions of the securities laws of the United States against us or our officers and directors due to our incorporation in Italy;
- investors from countries that do not use the Euro as their currencies face an additional risk due to changes in currency exchange rates;
- our shares not being freely transferable in the United States;
- U.S. Foreign Account Tax Compliance Act withholding affecting payments on the Shares;
- adverse U.S. federal income tax consequences to U.S. Holders of the Offer Shares due to our possible classification as a passive foreign investment company ("PFIC"); and
- the possibility of the price of the Shares being higher than the open market price due to stabilization activities.

The foregoing factors should not be construed as exhaustive. We urge you to read this Offering Circular, including the sections entitled "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Industry*" and "*Business*", as well as the Financial Statements and notes thereto, for a more complete discussion of the factors that could affect our future performance and the industry in which we operate.

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement. Except as required by law or the rules and regulations of any stock exchange on which the Offer Shares are listed, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements are expressly qualified in their entirety by the cautionary statements referred to in this section and contained elsewhere in this Offering Circular, including those set forth under "*Risk Factors*". In light of these risks, our results could differ materially from the forward-looking statements contained in this Offering Circular.

SUMMARY

This summary contains basic information about the Offering and us. It does not contain all the information that may be important to you. Before making an investment decision, you should read this entire Offering Circular carefully, including the Financial Statements and the notes thereto and the other financial information contained in this Offering Circular, as well as the risks described under "Risk Factors".

Certain industry and market data set forth in this summary is sourced directly from third party sources. We have indicated in the text the information and data that is derived directly from third party sources. Other information has been prepared by management on the basis of third party data. See "Risk Factors" and "Industry and Market Data" for further discussion of our third party sources.

Overview

We are specialized in the management, collection and non-recourse factoring of receivables to suppliers of, primarily, the entities of the national healthcare systems and other public administration entities in Italy, Spain and Portugal (jointly the "**Southern European Market**"), directly operated by the Company, and by our subsidiary Farmafactoring España ("**Farmafactoring España**"). Our Traditional Activities consist of: (i) credit collection management ("**Credit Collection Management**") and (ii) non-recourse factoring ("**Non-Recourse Factoring**") in Italy, Spain and Portugal. Following the Magellan Acquisition in June 2016, we also offer a wide range of financial services (including non-recourse factoring) to the public and healthcare sectors in Poland, Slovakia and the Czech Republic (jointly the "**Eastern European Market**").

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

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

We have been operating in the Italian market since 1985, which is our primary market (approximately 75% of customer loans, generating 85% of our net interest margin for the year ended December 31, 2016). We are one of the leading operators in the Italian factoring market for factoring of receivables towards the public administration with a market share in Italy of 23.6% as of December 31, 2016 (*Source*: *Company analysis on internal data*). In over thirty years of activity, we have become an important business partner for suppliers of the national healthcare system (including pharmaceutical, diagnostics and biomedical sectors) and the public administrations offering working capital solutions to address public payment delays in Italy. We have established and developed relationships with the largest debtors and creditors in the healthcare sector and more recently in the public administration,, through which we have acquired an extensive knowledge of the market and have established full geographical coverage in Italy.

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

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

As part of our Non-Recourse Factoring business in Italy, Spain and Portugal, we purchase the principal amount and interest component (including late payment interest and ancillary income) of receivables mainly owed to Suppliers and we manage their collection on our behalf. The receivables we acquire are generally overdue and bear late payment interest, the amount of which is regulated by European Union law. Our income in this segment derives primarily from: (i) maturity commission and (ii) late payment interest. In 2015 we also expanded our Non-Recourse Factoring business to receivables due from the Italian tax authorities. For the year ended December 31, 2016, we purchased €3.002 million in new receivables (€2.606 million of which were in Italy, €346 million in Spain and €51 million in Portugal), collected on €2.995 million (€2.564 million of which was in Italy, €391 million in Spain, and less than €40 million in Portugal) and have €2.017 million outstanding under management in our Non-Recourse Factoring business.

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

In March 2016, we filed with the Bank of Italy an application to offer banking services in Germany and having received no objection from them in this regard, in June 2016, we launched the collection of savings in Germany through the online platform *Weltsparen.de*, using our Spanish branch under the freedom to provide services. On the German market, we provide the "*Cuenta Facto*" online term deposit account service, which allows German customers to access term deposit accounts offered by foreign banks not established in Germany.

On May 27, 2016 the tender offer in respect of all the share capital of Magellan was finalized and on June 30, 2016 we completed the acquisition, through the vehicle Mediona, of the entire share capital of Magellan, the parent company of a group operating in Poland, Slovakia and the Czech Republic (and, at that time, to a marginal extent, through a branch of Magellan, in Spain) in the alternative financing market ("**AFM**"). Magellan offers a diversified range of financial services (including non-recourse and with recourse factoring), aimed at guaranteeing access to short-term funding for suppliers of the healthcare sector and local authorities, as well as providing funding for parties operating in the healthcare and public authority sectors. Through the Magellan Acquisition and its subsidiaries, the group significantly increased its size, extending its activities to the Eastern European Market and at the same time diversifying the range of financial services offered. (as of December 31, 2016 Poland represents approximately 14% of total customer loans, while the rest of the Eastern European Market represents approximately 3%). See "*—Subsidiaries—Magellan Acquisition*".

For the year ended December 31, 2016, following the Magellan Acquisition (which was consolidated into our Group starting from the end of the Magellan Acquisition for the following seven months) and not adjusting for the one-off extraordinary costs, we recorded a net profit of €72.1 million, compared with €68.8 million for the same period of the previous financial year, which did not include the Magellan Group. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors affecting our business—Magellan Acquisition*". Not taking the Magellan Group into consideration, the net profit of Banca Farmafactoring and Farmafactoring España, for the year ended December 31, 2016, would have been €69.2 million, with an increase of €0.4 million compared with December 31, 2015.

We remain in compliance with the various capital requirements regulatory indicators imposed on us as a bank. The Banking Group's own funds, also including the Magellan Group, as of December 31, 2016, stood at €235.3 million and our Group's overall exposure to risks was considered adequate for our actual risk profile and capital resources available. With reference to the Banking Group, the supervisory capital coefficients, CET1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio, stand, respectively, at 16.7%, 16.7% and 16.7%, (excluding the profit for the period from capital). Our Group's overall exposure to risks is compliant with the applicable legal framework.

In addition, as part of our strategy to consider organic expansion in other markets similar to those where we already operate, we are also considering starting operating in Greece in the near future. In February 2017, we filed with the Bank of Italy an application to offer factoring services in Greece under the freedom to provide services and we expect that we shall receive the relevant authorization by the first half of 2017. See "*—Recent Developments—Expansion of our business in Greece*".

Our Key Competitive Strengths

We believe that our competitive strengths are represented by the following key factors:

Operating in large markets with attractive opportunities for growth and a highly stable regulatory framework

The Southern European Market in which we operate and in which we have historically been active for our Traditional Activities is highly stable despite the austerity measures adopted by the government of the three countries in relation to public expenditure. In these markets the public administration's expenditure on goods and services, which generates the credits that we manage and / or purchase, was equal to €133 billion in Italy (approximately 8.1% of GDP), €56 billion in Spain (5.2% of GDP) and €11 billion in Portugal (5.9% of GDP), for a total of approximately €200 billion in 2015 (*Source*: for Italy the Ministry of Economy and Finance, for Spain the Ministerio de Hacienda y Administraciones Públicas e Actualización del Programa de Estabilidad 2016-2019-Reino De España, and for Portugal the Instituto Nacional de Estatistica Portugal) and is expected to remain stable in the foreseeable future.

The Southern European Market presents limited factoring penetration (i.e. factoring turnover in the public administration divided by total public administration current expenditure for goods and services) versus public expenditure, thus offering scope to specialized players to expand their activity by: (i) developing new business with potential customers which do not currently use factoring, and (ii) by managing and/or purchasing greater volumes of receivables from existing customers. (*Source*: Assifact, DEF 2015 and company accounts for Italy; AEF and "*Actualizacion del Programa de Estabilidad 2015—2018*" for Spain; the expansion is calculated as non-recourse turnover from the public administration / public spending on goods and services).

Similarly the Eastern European Market in which we operate (Poland, Slovakia and the Czech Republic) is characterized by high historical growth rates in public expenditures and positive future prospects as well as a limited penetration of the AFM. Poland, which represents Magellan's main market, in the last four years recorded an average growth rate of approximately 3% in respect of healthcare expenditure (€29 billion in 2015, equal to approximately 7% of the GDP) and almost stable in respect of local authorities (€53 billion in 2015, equal to approximately 12% of the GDP). The growth in healthcare expenditure (aimed at filling the current gap with more developed economies), the demographic trend characterized by a steady increase in the average age of the population and any current and future regulatory changes could contribute to the expansion of these markets in the forthcoming years.

Historically, the countries in which we operate have endemic delays in payments towards public administration suppliers, due to, among other factors, (i) a mismatch between centralized tax collection and decentralized public spending allocation, (ii) administrative complexity and (iii) commercial debt not classified as public debt which allows financial flexibility to governments.

Since 2000, the public administration receivables sector has been regulated by a stable and harmonized regulatory framework at the European level (Directive 2000/35/EC) through the introduction of the European regulation on combatting late payment in commercial transactions between companies or between companies and public administrations, ensuring uniformity and certainty by establishing principles and methods for the calculation of the maximum terms for supplier payment permitted for the public sector and late payment interest. Such regulatory framework was integrated in 2011 (through Directive 2011/7/EU). As of the date of this Offering Circular, the statutory interest rate is equal to 8% above the ECB's reference rate or, for EU countries which are not part of the Eurozone, the central bank of the relevant country. See "*Supervision and Regulation*". We believe that such EU regulatory framework helps strengthen our business by creating visibility on some of the key variables which impact our business model.

Leadership in factoring of receivables from public administration in Italy, Spain, Portugal and alternative healthcare financing market in Poland

In Italy we hold a leading position amongst specialized factoring market players (with a market share of approximately 23.6% as of December 31, 2016 in respect of the stock of non-recourse receivables towards the public administration, while, in Spain, we are the leader among the independent factors in the context of the purchase of receivables from Suppliers and among the top six factoring market players in relation to our total purchased volumes of non-recourse receivables towards the public administration and, in Portugal, we are the leader among the independent factors in the context of the purchase of receivables from suppliers of the national healthcare system (*Sources*: Assifact, AEF, Factor Chain International and Company estimates as of December 31, 2016).

Following the Magellan Acquisition, we are market leader in financial services for healthcare entities in Poland where we are also active in the sector of alternative financing solutions for hospitals, which in the past three years recorded a significant growth and where we believe we are best positioned to take advantage of the future expected growth being also one of the few specialized alternative financing players (*Source:* market analysis conducted by PwC in Poland). Furthermore, Magellan is one of the key players amongst nonbank financial institutions providing financial services to hospitals and to the healthcare sector in Slovakia, where it has replicated its business model and established consolidated relationships with 36 healthcare facilities, which represent approximately 50% of the healthcare facilities present in the country.

Long standing relationship with high-profile clients generating significant amount of recurring business

We benefit from having over thirty years of experience in Italy and being able to offer a broad range of services in the markets in which we operate, as well as from having an efficient platform which is integrated with the platforms of our key clients. This allows us to position as a partner in the management and disposal of receivables due from the public sector. Similarly, in Eastern Europe, and especially in Poland, Magellan has long term relationships with clients, who in the healthcare sector include certain multinational groups to whom we already provide services in Italy, Spain and Portugal, and is their reference partner for alternative financing solutions.

In the Southern European Markets, we have well established relationships with our main counterparties, including the main suppliers of the Italian national healthcare system. This is confirmed by our high client retention rates and increasing growth in volumes: as of December 31, 2016, our top 10 clients in the context of our Credit Collection Management business had been our clients for an average of over 18 years and generated approximately 46% of volumes of managed and purchased receivables (equal to €2.7 billion in total). Our top 10 clients in the context of our Non-Recourse Factoring business had been our clients for an average of approximately ten years and generated approximately 40% of volumes of receivables.

Our client retention level represents a solid base upon which we can generate volumes and, at the same time, allows us to benefit from great visibility into our business prospects. In the Southern European Markets, over 80% on average of the volumes generated in the past 10 years relate to clients that, every year between 2013-2016, have guaranteed our business continuity ("**Consolidated Clients**"), also taking into account entities resulting from the consolidation of individual clients and/or clients also operating in Spain and Portugal.

Our client loyalty represents a solid base for our business operations and, at the same time, allows us to benefit from a high visibility of our future business prospects.

Traditionally, in Italy, Spain and Portugal, we have mainly worked for and alongside leading multinational and national suppliers of products and services to the public administrations which, by virtue of the high reliability and quality standards of the services we offer, in many cases outsource all their Credit Collection Management activities to us, thus, in our opinion, creating a significant barrier to the entrance of other competitors. The majority of these clients have extensive experience in their sector and high credit ratings. Moreover, they benefit from higher growth rates on the markets as a result of a wide product portfolio as well as their ability to act as a consolidator in their sectors. In turn, we benefit from the profiles of our client base in terms of business volume and more stable relationships, as well as reduced counterparty risk.

Long track record in dealing with Public entities and deep knowledge of the payment dynamics and strategies

Thanks to our long-term experience in the Italian healthcare segment, we have developed an extensive knowledge of our final debtors and of the Credit Collection Management trends and strategies. We have also established and continue to develop a detailed information database, which enables us to:

- monitor relevant payment trends, particularly DSOs;
- assess and predict the timing for credit collection and credit risk and to determine the pricing of the receivables we purchase; and
- effectively and efficiently manage the entire receivables and late payment interest collection process, and to collect high percentages of late payment interest in short periods of time.

Our advanced and scalable IT proprietary systems developed in-house in more than 30 years of activity represents a key competitive advantage, providing distinctive features of business model and offering a high level of efficiency for customers and debtors, representing, in our opinion, a significant barrier to entry for competitors.

Experienced management team with proven track record of being able to successfully implement a growth strategy

Our management team has significant experience and extensive knowledge of the markets in which we operate. In particular, with respect to the Southern European Market, our management team has, on average, over ten years of experience and an extensive knowledge of Credit Collection Management and Non-Recourse Factoring in Italy. Over time, our management has been able to take advantage of both its experience in executing transactions and its ability to manage growth strategies even in non-traditional areas (such as central administration and public entity segments, and the Portuguese market). Our Eastern European activities are directed by the management team of Magellan, which has been with Magellan for nearly 12 years.

Proven track record of high growth and profitability

Since 2013, in our Traditional Activities we experienced high growth rates in terms of volumes and profitability and, in particular, we recorded an increase in purchased receivables from €2.5 million in 2014 to €3 million in 2016 (with a compound annual growth rate ("**CAGR**") of 9.6%) and in net profit from €57.5 million (normalized) in 2014 to €69.3 million in 2016 (with a CAGR of 9.8%). In addition to the volume growth shown above, the volumes of the Magellan Group assets (consolidated for the year ended 2016) as of December 31, 2016, amounted to approximately €426 million, showing an increase of 7% compared to the previous year.

In the period 2013-2015, total purchased receivables increased by a CAGR of 39%, net of the effects of Split Payment Mechanism in Italy and taking into account an average VAT rate of 15%. As of June 30, 2016, purchased receivables increased by 32.7% to €1,310 million, compared to €987 million recorded as of June 30, 2015.

The significant increase in volumes has been achieved also through a diversification of our activity towards segments with lower risk weighting (e.g. Iberia and other public administration different from the national healthcare system) resulting in a decreasing risk weighted assets ("RWAs") density and higher risk adjusted return.

In the Southern European Markets, we have also significantly increased the number of our clients and debtors over the last three years (from 145 new clients in 2014 to 262 in 2016 and approximately from 1,769 new debtors in 2014 to 6,879 in 2016), reducing the concentration of our client base and increasing the diversification of our portfolio. To support our growth strategy, since 2014 we strengthened our sales organization and started using indirect distribution channels by entering into agreements with other financial institutions (14 banks as of December 31, 2016), brokers, other factors, insurance and reinsurance companies or trade associations, and new distribution agreements with third parties.

The high growth in terms of volumes has also been achieved through the diversification of the Group's activities in areas with a lower risk weighting (Iberia and other areas of public administration other than the national healthcare system) which allowed a reduction in risk weighted assets and, consequently, greater profitability over risk weighted assets.

In order to pursue our growth strategy in the European market both organically (also by taking advantage of cross-selling opportunities with clients operating in the pharmaceutical, diagnostics and biomedical fields) and by way of acquisition in June 2016, we successfully completed the Magellan Acquisition. See "*—Subsidiaries—Magellan Acquisition*". We believe our volume growth trend will benefit from the Magellan Acquisition and that our growth could be further strengthened through the improved funding conditions available to Magellan as a member of our Group.

Solid business model characterized by high margins and strong profitability, an efficient cost structure despite investment to support growth and a strong capital position

Over the past three years, we have recorded high margins with the net interest margins continuously growing thanks to: (i) our leadership position in the markets in which we operate; (ii) our ability to assess and predict the collection time of purchased receivables and collect late payment interest; and (iii) the decrease in our cost of funding. The net interest margin increased from €107.7 million (normalized) in

2014 to €159.2 million in 2016 (with a CAGR of 22%, including Magellan), compared to due from customers which increased from €1,136.6 million as of December 31, 2013 to €2,499.1 million as of December 31, 2016 (with a CAGR of 30%). Through the Magellan Acquisition we accelerated our growth process and strengthened our return on capital invested. As of December 31, 2016, our ratio between net profit of the year and shareholders' equity ("**ROE**") was equal to 27.6% and adjusted ROE (net of the ancillary costs) was equal to 31.9%. Over the last three year we achieved a high double-digit earnings growth with a strong and resilient profitability also through the cycle. Our results have enabled us to implement a generous dividend policy for our shareholders (in the last three years, we have distributed dividends totaling €189 million) and to finance high rates of organic growth without using external capital.

During the period 2013-2015 we have made significant investments, to support our internal future growth and the transformation in bank. The number of our employees increased from 113 at the end of 2013 to 409 at the end of 2016, and in particular we increased our salesforce from three (2013) to eighteen (2016). Although such investments resulted in an increase in our operational costs, we maintained a high operational efficiency principally due to: (i) limited fixed costs incurred compared to income (approximately 20% in 2015) and (ii) a significant variable component, not exceeding the fixed component, of remuneration in respect of our top management linked to certain objectives (if such objectives are not met, the variable component is equal to zero). Our efficient operating structure is shown by a cost/income ratio equal to 40.4% in 2016 (32.0% excluding extraordinary costs).

Our capital ratios are significantly higher than the minimum regulatory requirement and our SREP level, and are among the highest in the European and Italian market. As of December 31, 2016, Banking Group recorded a Common Equity Tier 1 Ratio and a Total Capital Ratio each equal to 16.7% excluding any income generated in the year. The consolidation perimeter for the purposes of the CRR recorded a Common Equity Tier 1 Ratio and a Total Capital Ratio equal to 16.4% and 16.6% respectively. Given business seasonality, year-end figures represent the peak of activity and, consequently, the highest level of capital absorption.

Growing and diversified funding base with decreasing cost of funding and assets characterized by a low complexity and risk profile

We have demonstrated an ability to maintain high quality funding resources in all market cycles, also due to our asset and liability management strategy aimed at ensuring appropriate liquidity levels. Our limited risk profile combined with our high and stable profitability and the strong relationships with the banking systems have allowed us to have continuous access to credit lines. We have also demonstrated our ability to cover funding needs even during the peak of the financial crisis and sovereign debt crisis. We have a conservative liability management approach since our funding source duration is significantly higher than that of the receivables purchased.

After having obtained the banking license in 2013 and implemented certain actions to operate as a bank in the course of 2014 and 2015, we were able to diversify and expand our funding resources, and to significantly reduce, from the second half of 2014, the cost of funding and expand the purchase of receivables in the context of our Non-Recourse Factoring business. More specifically:

- in June 2014, we successfully placed our first senior unsecured bond issue for €300 million with maturity in 2017 and an interest rate of 2.75% and in the last quarter of 2014 we renegotiated our lines of credit; in September 2014, we launched an online term deposit account in Italy, and we collected deposits totaling €418 million as of December 31, 2015 compared to €226 million as of December 31, 2014, an increase of 84.9% also thanks to the launch in August 2015 of a similar product in Spain. As of December 31, 2016 the Group collected in total approximately €822.4 million (an increase of 95.5% as of December 31, 2015); and
- in June 2016, we successfully placed a further senior unsecured bond issue for €150 million with maturity in 2021 and an interest rate of 1.25%.

Our Liquidity Coverage Ratio (an index relating to short term liquidity, i.e. within 30 days) was equal to 391% as of December 31, 2015 and 502% as of December 31, 2016, which was significantly higher than the minimum regulatory requirement, equal to 60% and 70% as of December 31, 2015 and 2016, respectively. We also have a low leverage ratio, which in the years ended December 31, 2014, 2015 and 2016 was equal to 6.1% and 4.9% (5.9% excluding Magellan), respectively.

We believe that our credit portfolio includes high quality assets, consistent with our strict rules governing the purchase and management of receivables. The receivables we acquire have a low credit risk, since our main debtor counterparties are entities of the Italian, Spanish and Portuguese national healthcare systems and public administrations, which have a low insolvency risk. The assignors of our receivables also have a low risk profile being confined to the risk that they may be unable to pay back the purchase price in the event that the assigned receivables turn out to be inexistent or without value and therefore we have the right to recover the principal and interest from them. This risk is very low thanks to the high credit quality of our clients and, for our minor clients in Spain and Portugal, our invoice settlement system which confirms the acknowledgement from the debtors of the receivables before purchase. We believe the low-risk nature of our assets is shown by our low amount of non-performing loans. For the years ended December 31, 2014, 2015 and 2016, our net non-performing loans were equal to 0.2%, 0.1% and (including Magellan) 0.5%, respectively, of factoring assets.

Consistent growth in profits and increasing returns on weighted assets to support a high dividend distribution capability

Over the past three years, we have recorded a consistent growth in profits, thanks to successful initiatives (such as the consolidation of our expansion into Spain and diversification in the non-healthcare public administration sector) which were supported by the extension of our funding resources and the reduction in the cost of funding. Despite the investments we have made in infrastructure and operating costs, we have maintained an efficient cost structure, with a particularly low cost income ratio (approximately 30% adjusted), thus limiting the initial adverse impact of such initiatives on our profits.

Our business model and our capacity to replicate it are reflected in our financial results which, despite the adverse macroeconomic conditions in Europe and Italy, have demonstrated that our business has a robust capacity to generate profits (amounting to €72 million in 2016, €69 million in 2015, €57 million in 2014 (normalized to take into account the change in the late payment interests calculation estimate)), even in adverse market conditions. Our ability to generate increasing profits, combined with greater efficiency in the use of capital in segments characterized by reduced risk-weighting (such as the non-healthcare public administration sector and the Spanish market), has allowed us to increase our returns on risk-weighted assets, which decreased from approximately 24.1% in 2014 to approximately 13.2% in 2016 (calculated as the ratio between total profits and average risk-weighted assets for the relevant period).

The positive results which we have achieved in terms of profitability have given us great flexibility which, together with our robust capital position (CET1 equal to 16.7% as of December 31, 2016 in relation to the Banking Group) and our ability to use our capital efficiently, has enabled us to implement a generous dividend policy for our shareholders (in the last three years, we have distributed dividends totaling €189 million, including the profits of the year 2016 which are still to be distributed as of the date of this Offering Circular) and to finance high rates of organic growth without using external capital.

Our Business Strategies

We seek to operate our business by implementing the following strategies:

Consolidation of our position of leadership amongst suppliers to the healthcare sector in Italy and further expansion of our business towards public administrations and private entities operating in the Italian healthcare sector

We intend to increase our market share that we hold in Italy in the Credit Collection Management and Non-Recourse Factoring business towards the healthcare sector, as well as to: (i) consolidate our position of leadership amongst specialized suppliers to the healthcare sector by increasing client loyalty and further improving and customizing services we offer; (ii) maintain a central role in providing specialized services in the management and sale of receivables for large customers; (iii) capitalize on our strong market position and the experience we have acquired in the management of receivables due to suppliers of the Italian national healthcare system, expanding our activities towards public administrations and private entities (including religious organizations) operating in the healthcare sector; (iv) increase the diversification of our client base and the type of receivables purchased, also expanding our activities concerning the purchase of tax receivables; and (v) continue to invest in the technological infrastructure of our IT systems, which represents a competitive advantage in the traditional markets of our business.

Further growth in non-Italian markets

We intend to pursue growth opportunities in markets outside of Italy, by identifying markets which have similar characteristics (particularly with respect to the regulatory and legislative framework) to Italy, as we have done in Spain and Portugal. We seek to expand our presence in Spain and Portugal, which we have developed organically, as well as seek out strategic acquisitions.

In Spain and Portugal, we seek to take advantage of our experience and cross-selling opportunities deriving from our multinational client base. Our aim, especially in the segment relating to receivables due from national healthcare systems, is to manage volumes of receivables consistent with those in Italy, and to continue to increase our business with the public administration in Spain (including publicly owned companies) and to generate new business with the public administration in Portugal.

With respect to other European markets, we successfully acquired Magellan, one of the leading operators in the field of financial services for the healthcare industry and local public administrations in Poland, the Czech Republic and Slovakia, operating also through a branch established in Spain. See "*—Subsidiaries—Magellan Acquisition*". We believe we could successfully replicate, organically or through bolt-on acquisitions, our model in other European Union markets. In addition, as part of our strategy to consider organic expansion in other markets similar to those where we already operate, we are also considering starting operating in Greece in the near future. In February 2017, we filed with the Bank of Italy an application to offer factoring services in Greece under the freedom to provide services and we expect that we shall receive the relevant authorization by the first half of 2017. See "*—Recent Developments—Expansion of our business in Greece".*

Maintenance of high quality assets, strong capital position and high level of dividend distribution

We intend to maintain high capital ratios in order to cover the risk relating to our activities in Italy and Spain and to support the growth strategies described above. In particular, we intend to keep our Total Capital Ratio at or above 15% and to continue to undertake a conservative risk management and maintain high quality assets. This has also allowed us to maintain a high level of dividend distribution to our shareholders, which we have been able to do in the past due to our high capacity to generate profits regardless of the difficulties arising from unfavorable contexts at a macroeconomic level.

Constant optimization of our funding resources in terms of cost, availability and diversification

We intend to continue to improve our funding structure to support our Non-Recourse Factoring business through the diversification of our funding resources, the reduction in costs and the increase in volumes. We intend to increase the online collection of deposits from retail and corporate clients by strengthening such activities even in new markets (as we did in September 2014 with the launch of Conto Facto in Italy, in August 2015 with the launch of Cuenta Facto in Spain through our Spanish branch and in June 2016 with the launch of the online collection of deposits from German clients through our Spanish branch). Following our second bond issuance in June 2016, we also intend to continue to raise funding in the debt capital markets and through ECB funding and other interbank channels to which we have access as a result of obtaining a banking license. The increased availability of funding and the reduction in the cost of funding are instrumental in achieving the growth strategies outlined above and represent an innovative feature for our traditional business model. See "*—Description of Our Business Activities by Service Segments—Collection of online term deposits ("Conto Facto" and "Cuenta Facto")".*

Expansion and diversification of distribution channels

We intend to continue our strategy developed over the last few years of diversifying and expanding our distribution channels in Italy and Spain, which is aimed at acquiring new clients by strengthening our direct sales network and collaborating with other financial intermediaries, insurers, reinsurers and/or brokers. We believe that by having a greater diversification of distribution channels, we may be able to reach out to a broader set of counterparties to in turn diversify our own portfolio.

Corporate Information

We are a bank incorporated as a joint stock company (*società per azioni*) with registered offices at Via Domenichino, 5 in Milan, and are registered with the Companies' Register of Milan, ordinary section, with Tax Code, VAT No. and Companies Register No. 07960110158 and in the administrative economic database of the Chamber of Commerce of Milan under No. 1193335.

We have been incorporated on July 22, 1985, and pursuant to Article 3 of the By-laws, the Company has a duration until December 31, 2100, unless otherwise extended by a resolution of an extraordinary meeting of the shareholders.

We are authorized to perform banking activities pursuant to Article 14 of the Consolidated Banking Law and are registered both with the Register of Italian Banks (*albo delle banche*) held by the Bank of Italy and with the Register of Banking Groups (*registro dei gruppi bancari*) (processing code 3435; serial No. 5751). Furthermore we are authorized to operate in Spain, through a branch and in Portugal and in Germany under the freedom of establishment.

THE OFFERING

The information presented in the following summary of the Offering and throughout this Offering Circular assumes, unless otherwise specified, that the Over-allotment Option is not exercised.

"**Company**"	Banca Farmafactoring S.p.A.
"**Shares outstanding before the Offering and before the Stock Split**"	1,701,074 shares with no par value.
"**Shares outstanding before the Offering and taking into account the Stock Split**"	170,107,400 shares.
"**Shares outstanding after the Offering and Stock Split**"	170,107,400 shares with no par value.
"**Stock Split**"	The By-laws of the Company, which are set to enter into force on the Trading Date, provide, *inter alia*, that the Company's share capital shall be split into 170,107,400 ordinary shares with no par value (resulting from a stock split carried out on the basis of a 1:100 ratio). In particular, following the entrance into force of the abovementioned By-laws, the Offering shall concern a maximum number of 53,000,000 Offer Shares. See "*Principal and Selling Shareholder—Stock Split*".
"**Offering**"	The Offering consists of an institutional offering of up to 53,000,000 Offer Shares (excluding the Over-allotment Option), 31.16% of the Company's issued and outstanding share capital, which are being offered by the Selling Shareholder to (i) institutional investors outside the United States in compliance with Regulation S, including "**qualified investors**" in Italy (as defined by applicable Italian regulations), and (ii) QIBs in the United States, in reliance on Rule 144A of the Securities Act or another exemption from the registration requirements of the Securities Act. The Offering is being underwritten by the Joint Global Coordinators pursuant to an institutional underwriting agreement. If the Over-allotment Option is exercised in full, the Offering will amount to up to 7,950,000 Offer Shares and would represent 35.83% of the Company's issued and outstanding share capital. *See* "*Plan of Distribution*".
"**Selling Shareholder**"	BFF Luxembourg S.à r.l., the Company's major shareholder as of the date of this Offering Circular, is offering up to 53,000,000 Offer Shares, and in addition it will, if the Over-allotment Option is exercised, be required to deliver up to 7,950,000 Over-allotment Shares.
"**Offering price**"	The offering price in the Offering is €4.7. The offering price has been determined by the Selling Shareholder in consultation with the Joint Global Coordinators by way of a bookbuilding exercise.
"**Joint Global Coordinators**"	Deutsche Bank AG, London Branch, Mediobanca-Banca di Credito Finanziario S.p.A. and Morgan Stanley & Co. International plc are acting as joint global coordinators of the Offering.
"**Joint Bookrunners**"	Deutsche Bank AG, London Branch, Mediobanca-Banca di Credito Finanziario S.p.A., Morgan Stanley & Co. International plc, BNP Paribas, Jefferies International Limited and UniCredit Corporate & Investment Banking are acting as joint bookrunners of the Offering.

"**Co-Lead Manager**"	Banca Akros S.p.A. is acting as co-lead manager of the Offering.
"**Sponsor**"	In connection with the listing of our shares on the MTA, we have appointed Mediobanca-Banca di Credito Finanziario S.p.A. as sponsor in accordance with Italian securities market regulations.
"**Share capital**"	Prior to the Offering, our issued and paid up share capital is €130,982,698, divided into 1,701,074 fully paid-in shares (of which 1,074 special shares) with no par value. Immediately following the Offering, our share capital will be €130,982,698 divided into 170,107,400 ordinary shares with no par value, following a stock split of 1:100, and our Selling Shareholder will retain approximately 63.0% of our share capital if the Over-allotment Option is not exercised, or approximately 58.4% if the Over-allotment Option is exercised in full. The remainder of our share capital (approximately 37.0% if the Over-allotment Option is not exercised or 41.6% if the Over-allotment Option is exercised in full) will be primarily held by institutional investors. *See* "*Description of Share Capital*".
"**Over-allotment Option**"	The Selling Shareholder has granted to the Joint Global Coordinators, on behalf of the several institutional managers, an option to purchase up to 7,950,000 additional Offer Shares (15% of the shares offered in the Offering) at the offering price to cover any over-allotments. This option may be exercised, in whole or in part, from the date of the institutional underwriting agreement until 30 days after the Trading Date (as defined on the cover page of this Offering Circular). In connection with this Over-allotment Option, the Selling Shareholder has also granted the Joint Global Coordinators an option to borrow up to 7,950,000 Offer Shares. This option may be exercised, in whole or in part, from the date of the institutional underwriting agreement until 30 days after the Trading Date. See "*Plan of Distribution—Over-allotment Option*".
"**Dividends**"	Holders of Offer Shares purchased in the Offering will be entitled to all dividends, if any, declared following the date of this Offering Circular. The declaration, payment and amount of any future dividend is subject to the approval of the holders of our shares at the annual shareholders' meeting and will be dependent upon, among other things, our financial condition, results of operations, prospects, cash flow, capital requirements and reserves, limitations on the payment of dividends contained in our financing agreements and will, in any event, be subject to applicable restrictions pursuant to Italian law. Our Board may approve the distribution of interim dividends in accordance with our by-laws (the "**By-laws**") and subject to certain limitations provided by applicable Italian law. See "*Dividends and Dividend Policy*" and "*Description of Share Capital—Dividend Rights*".

"**Withholding tax**"	Dividends payable by us to shareholders who are non-residents of Italy without permanent establishment in Italy to which the Offer Shares are effectively connected are subject to Italian substitute tax at the rate of 26.0%, which may be (i) reduced by applicable tax treaties or conventions, provided all the required conditions are met, or, alternatively, (ii) refunded by the Italian tax authorities in an amount up to eleven twenty-sixths of the tax paid, provided it is proven that the related dividends have been definitively taxed in the recipient's country of residence in an amount at least equal to the total refund claimed. Italy has concluded income tax conventions with over 60 countries, including the United States and all members of the European Union. See "*Taxation of Ordinary Shares—Italian Tax Considerations*".
"**Voting rights and limitations**"	Under our By-laws, each holder of ordinary shares is entitled to cast one vote for each share held. Holders of ordinary shares are entitled to vote at and attend our ordinary and extraordinary shareholders' meetings. See "*Description of Share Capital*".
"**Lock-up agreements**"	Our Selling Shareholder has agreed to lock-up commitments which prevent it from, *inter alia*, issuing, offering, selling, contracting to sell, pledging, loaning, granting any option to purchase, making any short sale or otherwise disposing of our shares for a period of 360 days from the Trading Date without the prior written consent of the Joint Global Coordinators, subject to certain exceptions. Furthermore, we have also agreed to lock-up commitments for a period of 180 days from the Trading Date. Additionally, certain managers of the Company have agreed to a lock-up undertaking for a period of 360 days from the Trading Date and certain minority shareholders of the Company have agreed to a lock-up for a period of 180 days from the Trading Date. See "*Plan of Distribution—Lock-Up Agreements*".
"**Listing of the Offer Shares**"	The Offer Shares are expected to be admitted to listing on the MTA on or about the Trading Date. Trading in the Offer Shares is expected to commence on or about the Trading Date. See "*Securities Trading in Italy*".
"**Our dealings in our shares**"	Subject to limits established by Italian law, we may purchase our shares at any time. See "*Description of Share Capital—Purchase by the Company of its own shares*".
"**Payment, delivery and settlement**"	Payment for and delivery of the Offer Shares are expected to be made on or about April 7, 2017. In case of delay or early termination of the Offering, any possible variation of the payment date will be communicated through the same notice towards which such delay or early termination has been announced. The Offer Shares will settle against payment in Euro through the facilities of Monte Titoli S.p.A. (a centralized securities depositary system), Clearstream Banking, société anonyme, and Euroclear Bank S.A./N.V., as operator of the Euroclear System. See "*Securities Trading in Italy—Clearance and Settlement in Italy*".
"**Share code**"	ISIN: IT0005244402

SUMMARY FINANCIAL INFORMATION AND OTHER DATA

The following tables set forth our summary financial information and other data as of the dates and for the indicated periods. The summary financial information contained herein has been prepared and presented in accordance with IFRS. You should read the following information in conjunction with "*Presentation of Financial and Other Information*", "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Capitalization and Regulatory Capital*".

The following tables set forth our summary financial information and other data as of the dates and for the indicated periods.

The summary financial information has been taken from our Consolidated Financial Statements.

The summary financial information in the tables below should be read together with, and is qualified in its entirety by reference to, our financial statements, including the notes thereto, which are included elsewhere in this Offering Circular. You should also read the following information in conjunction with "*Presentation of Financial and Other Information*", "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Capitalization and Regulatory Capital*".

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

The following tables set forth certain key financial information and ratios for the indicated periods.

	As of December 31,		
	2016(1)	**2015**	**2014**
	(in € thousands)		
Consolidated income statement			
Interest income and similar revenues	190,225	161,946	252,551
Interest expense and similar expenses	(31,020)	(28,898)	(44,240)
Net interest margin	159,205	**133,048**	**208,311**
Fee and commission income	7,833	8,389	9,444
Fee and commission expenses	(4,478)	(446)	(1,205)
Net Fees and Commissions	**3,355**	**7,943**	**8,239**
Dividends and similar income	60	—	—
Gains/losses on trading	682	46	497
Fair value adjustments in hedge accounting	(1)	(23)	(7)
Gains /(losses) on disposals/repurchases	706	872	953
Operating income	**164,007**	**141,886**	**217,993**
Impairment losses/reversals	(2,244)	(1,126)	43
Net profit from financial activities	**161,763**	**140,760**	**218,036**
Net profit from financial and insurance activities	**161,763**	**140,760**	**218,036**
Administrative Expenses			
of which personnel costs	(24,924)	(18,476)	(14,828)
of which other administrative expenses	(38,718)	(27,091)	(21,126)
Net provisions for risks and charges	(2,075)	(879)	(1,280)
Net adjustments to/writebacks on property, plant and equipment	(1,282)	(1,115)	(1,053)
Net adjustments to/writebacks on intangible assets	(1,334)	(1,023)	(689)
Other operating income/expenses	5,704	4,144	7,032
Operating costs	**(62,629)**	**(44,440)**	**(31,944)**
Profit before tax from continuing operations	**99,134**	**96,320**	**186,092**
Income taxes on profit from continuing operations	(26,997)	(27,529)	(61,714)
Profit after tax from continuing operations	**72,137**	**68,791**	**124,378**
Profit for the year	**72,137**	**68,791**	**124,378**
Profit for the year attributable to owners of the parent	**72,137**	**68,791**	**124,378**
Profit for the year a*djusted*(2)	**83,492**	**72,310**	**124,378**

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

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

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

(a) Of which €12,641 thousands for 2016 and €4,048 thousands for 2015 related to non-recurring administrative costs. Our profit and loss for the year closed on December 31, 2016 includes non-recurring costs for a total amount equal to €13,951 thousand, gross of the tax effect, related to: (i) the Magellan Acquisition for a total of €4,940 thousand; (ii) the costs of integrating Magellan, mainly relating to consultation services, equal to €967 thousand; (iii) the costs of the waiver connected to Magellan's delisting process equal to €3,963 thousand; (iv) other costs mainly related to the prepayments of certain liabilities of Magellan amounting to €576 thousand and (v) to the process concerning the possible initial public offering of our shares, for an amount equal to €3,505 thousand. The profit and loss for the year closed on December 31, 2016 also includes the extraordinary contributions to the Resolution Fund equal to €2,179 thousand. Furthermore, the profit and loss for 2016 includes €2.0 million relating to the financial expenses incurred due to the Magellan Acquisition. The profit and loss for 2015 includes non-recurring costs for a total of €4,048 thousand, gross of the tax effect relating to our possible public listing (which was later brought to a halt) equal to € 1,636 thousand, to costs relating to the analysis of possible acquisitions equal to €1,821 thousand and to costs relating to increased indirect taxes for €591 thousand. The profit and loss for 2015 includes extraordinary contributions to the Resolution Fund, equal to €1,101 thousand.

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

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

The following table shows-the aggregate profit and loss for the year ended December 31, 2016, consisting in the sum of the profit and loss of the Group (excluding the Magellan Group) and the profit and loss of Magellan Group for the year ended December 31, 2016.

	As of December 31, 2016
	(in € thousands)
Net interest margin	166.9
Net Fees and Commissions	3.4
Operating income	171.7
Impairment losses/reversals	(2.6)
Net profit from financial activities	169.1
Net profit from financial and insurance activities	169.2
Administrative costs	(66.3)
a) personnel costs	(26.3)
b) other administrative expenses	(40.0)
Operating costs	(65.0)
Profit before tax from continuing operations	104.1
Income taxes on profit from continuing operations	(28.0)
Profit for the year	**76.1**

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

	As of December 31,		
	2016 adjusted (including Magellan for 12 months)	2016, (including Magellan for 7 months)	2015
	(in € thousands)		
Interest income and similar revenues	204,022	190,225	161,946
Interest expense and similar expenses	(37,142)	(31,020)	(28,898)
Net interest margin	**166,880**	**159,205**	**133,048**
Net Fees and Commissions	**6,845**	**3,355**	**7,943**
Dividends and similar income	123	60	0
Gains/losses on trading	666	682	46
Fair value adjustments in hedge accounting	(1)	(1)	(23)
Gains /(losses) on disposals/repurchases	706	706	872
Operating income	**175,219**	**164,007**	**141,886**
Impairment losses/reversals	(2,678)	(2,244)	(1,126)
Administrative Expenses	(53,519)	(63,642)	(45,567)
Net provisions for risks and charges	(2,076)	(2,075)	(879)
Net adjustments to/write backs on property, plant and equipment and intangible assets	(2,729)	(2,616)	(2,138)
Other operating income/expenses	6,112	5,704	4,144
Profit before tax from continuing operations	**120,330**	**99,134**	**96,320**
Income taxes on profit from continuing operations	32,761	(26,997)	(27,529)
Profit for the year	**87,569**	**72,137**	**68,791**

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

	As of December 31,		
	2016	2015	2014
	(in € thousands)		
Assets			
Cash and cash equivalents	149	160	3
Financial assets held for trading	244	—	—
Financial assets at *fair value*	3,401	—	—
Available-for-sale financial assets	385,280	429,438	370,180
Held-to-maturity financial assets	1,629,320	822,859	955,932
Due from banks	144,871	60,523	97,726
Due from customers	2,499,094	1,962,004	1,554,957
Hedging derivatives	529	—	—
Equity investments	302	—	—
Property, plant and equipment	12,988	12,666	12,693
Intangible assets	25,811	2,747	2,053
of which goodwill	22,146	—	—
Tax assets	25,870	28,053	31,117
a) current	21,451	25,113	28,572
b) deferred tax assets	4,419	2,940	2,545
of which respect to Law 214/2011	749	547	470
Other assets	7,137	3,106	2,106
Total Assets	**4,734,996**	**3,321,556**	**3,026,767**

(*) Contains consolidated results from Magellan from June 3, 2016 through end of period. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors affecting our business—Magellan Acquisition*" and "*Business—Magellan Acquisition*".

	As of December 31,		
	2016	2015	2014
	(in € thousands)		
Equity and Liabilities			
Due to banks	634,807	688,081	968,264
Due to customers	2,996,142	1,726,683	1,168,587
Debt Securities issued	634,283	452,962	468,562
Financial liabilities held for trading	7	0	46
Hedging derivatives	176	0	47
Tax liabilities	73,659	70,583	73,057
a) current	24,130	23,805	30,885
b) deferred	49,529	46,778	42,172
Other liabilities	54,319	45,885	32,377
Provisions for employee severance indemnities	867	883	717
Provisions for risks and charges:	6,989	5,195	4,316
a) pensions and similar commitments	6,343	4,830	3,952
b) other provisions	646	365	364
Valuation reserves	4,495	4,184	4,035
Reserves	126,132	127,409	51,481
Share capital	130,983	130,900	130,900
Profit for the year	72,137	68,791	124,378
Total Equity and Liabilities	**4,734,996**	**3,321,556**	**3,026,767**

(*) Contains consolidated results from Magellan from June 3, 2016 through end of period. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors affecting our business—Magellan Acquisition*" and "*Business—Magellan Acquisition*".

Economic, operating and financial indicators

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

	As of and for the year ended December 31,			
	2016	2015	2014	2014 normalized
	(in € thousands, except percentages)			
Economic, operating and financial indicators				
ROE (%)(1)	27.6%	26.2%	47.4%	21.9%
ROE *adjusted* (%)(2)	31.9%	27.5%	47.4%	21.9%
ROTE (%)(3)	30.6%	26.5%	67.5%	31.2%
ROTE *adjusted* (%)(4)	35.4%	27.8%	67.5%	31.2%
EBTDA(5)	106,069	100,463	189,071	88,576
RoRWA(6)	13.2%	14.1%	24.1%	13.0%
RWA *density*(7)	56.4%	54.3%	60.9%	n.a.
Total volumes	5,879,185	6,286,414	5,450,721	n.a.
Operating income / average due from customers (%)(8)	7.4%	8.1%	16.2%	8.7%
Net interest margin / interest income and similar revenues (%)(9)	83.7%	82.2%	82.5%	70.9%
Cost/income ratio (%)(10)	40.4%	33.6%	17.3%	32.1%
Cost/income ratio adjusted (%)(11)	32.0%	30.0%	17.3%	32.1%
Operating costs/average due from customers (bps)(12)	297	271	280	n.a.
Non-performing exposures (net of impairment) /loans and receivables with customers-*factoring*	0.6%	0.1%	0.2%	n.a.
Own funds/weighted average due from customers-*factoring* (%)(13)	24.9%	38.4%	42.1%	n.a.
Leverage Ratio (%)(14)	5.5%	7.9%	8.7%	n.a.
Total collections (Group, excluding Magellan)	6,284,908	5,522,111	5,197,043	n.a.
Purchases of non-recourse receivables	3,002,807	2,985,774	2,501,626	n.a.
Collections of non-recourse receivables	2,994,849	2,526,544	2,167,143	n.a.
DSO (Italy)(15)	72	216	193	n.a.
Dividends paid	72,126	68,765	48,450	n.a.
DSO (Spain)(16)	191	148	197	n.a.
DSO (Portugal)(17)	n.a.	385	307	n.a.
Average Receivables from customers	2,095,942	1,594,721	1,348,153	n.a.
Average assets(18)	4,151,045	3,094,737	2,391,379	n.a.
ROA (%)(19)	1.7%	2.2%	5.2%	2.4%
Dividend payout ratio (%)(20)	100.0%	100.0%	39.0%	84.3%
Dividend per share paid(21)	42.41	40.45	28.50	n.a.
ROA *adjusted* (%)(22)	2.0%	2.3%	5.2%	2.4%

(1) Ratio between net profit of the year and shareholders' equity, including net profit or loss for the year and net of the dividends paid.

The following table shows the breakdown of the calculation of the ROE shown in the table above as of December 31, 2016, 2015 and 2014.

	At and for the year ended at December 31			
	2016	2015	2014	2014 normalized
	(in € thousands, except percentages)			
ROE				
Profit for the year (A)	72,137	68,791	124,378	57,468
Shareholders' equity	*261,610*	*262,493*	*186,416*	*186,416*
Dividends paid	*72,126*	*68,765*	*48,450*	*48,450*
Shareholders' Equity including profit for the year and net of dividends paid. (B)	261,621	262,519	262,344	262,344
ROE [(A)/(B)]	**27.6%**	**26.2%**	**47.4%**	**21.9%**

(2) The following table shows the breakdown of the calculation of the ROE adjusted shown in the table above as of December 31, 2016, 2015 and 2014.

	As of December 31			
	2016	2015	2014	2014 normalized
	(in € thousands, except percentages)			
ROE adjusted				
Adjusted profit for the year (A)	83,492	72, 310	124,378	57,468
Shareholders' Equity	*261,610*	*262,493*	*186,416*	*186,416*
Profit for the year	*72,137*	*68,791*	*124,378*	*124,378*
Dividends paid	*72,126*	*68,765*	*48,450*	*48,450*
Shareholders' Equity including profit for the year and net of dividends paid. (B)	261,621	262,519	262,344	262,344
ROE adjusted [(A)/(B)]	**31.9%**	**27.5%**	**47.4%**	**21.9%**

(3) Calculated from the ratio between the 'Profit for the year' and 'Shareholders' Equity (excluding profit for the year)' net of intangible assets.

The following table shows the combined profit for the year and the ROTE for the year ended December 31, 2016 including the Magellan Group for twelve months and adjusted to take into account non-recurring expenses.

	As of and for the year ended December 31, 2016
	(in € thousands, except percentages)
Profit for the year	72,137
Non-recurring costs[(a)]	13,951
Tax effect of recurring income[(b)]	(4,114)
Extraordinary contributions to Resolution Fund[(a)]	2,179
Tax effect of contributions to Resolution Fund[(c)]	(661)
Profit for the year adjusted[(b)]	**83,492**
Profit for the year of Magellan for 5 months (January 2016-May 2016)	**3,972**
Non-recurring costs of Magellan for 5 months (January 2016-May 2016)	**128**
Tax effect	**(24)**
Profit for the year adjusted combined	**87,569**
Shareholders' Equity (excluding profit for the year)	261,610
Intangible assets	25,811
ROTE (in relation to the total sum of the results)[(b)(c)]	**37.1%**

(a) Of which €12,641 thousand for 2016 related to non-recurring administrative costs. Our profit and loss for the year closed on December 31, 2016 includes non-recurring costs for a total amount equal to €13,951 thousand, gross of the tax effect, related to: (i) the Magellan Acquisition for a total of €4,940 thousand; (ii) the costs of integrating Magellan, mainly relating to consultation services, equal to €967 thousand; (iii) the costs of the waiver connected to Magellan's delisting process equal to €3,963 thousand; (iv) other costs mainly related to the prepayments of certain liabilities of Magellan amounting to €576 thousand and (v) to the process concerning the possible initial public offering of our shares, for an amount equal to €3,505 thousand.

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

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

The following table shows the breakdown of the calculation of the ROTE shown in the table above as of December 31, 2016, 2015 and 2014.

	At and for the year ended at December 31			
	2016	2015	2014	2014 normalized
	(in € thousands, except percentages)			
ROTE				
Profit for the year (A)	72,137	68,791	124,378	57,468
Shareholders' equity	*261,610*	*262,493*	*186,416*	*186,416*
Intangible assets	*25,811*	*2,747*	*2,053*	*2,053*
ROTE [(A)/(B)]	**30.6%**	**26.5%**	**67.5%**	**31.2%**

(4) The following table shows the breakdown of the calculation of the ROTE adjusted shown in the table above as of December 31, 2016, 2015 and 2014.

	At and for the year ended at December 31,			
	2016	**2015**	**2014**	**2014 normalized**
	(in € thousands, except percentages)			
ROTE adjusted(*)				
Adjusted profit for the year (A)	83,492	72,310	124,378	57,468
Shareholders' Equity	*261,610*	*262,493*	*186,416*	*186,416*
Intangible assets	*25,811*	*2,747*	*2,053*	*2,053*
ROTE adjusted [(A)/(B)]	**35.4%**	**27.8%**	**67.5%**	**31.2%**

(*) Calculated from the ratio between the 'Profit for the year' and 'Shareholders' Equity (excluding profit for the year) net of intangible assets.

(5) Total profit or loss before tax from continuing operations" gross of "Net losses on impairment of financial assets" and "Impairment on tangible and intangible assets" and "Net provisions for risks and charges.The following tables shows the breakdown of the calculation of the EBTDA shown in the table above as of December 31, 2016, 2015 and 2014.

	For the year ended at December 31			
	2016	**2015**	**2014**	**2014 normalized**
	(in € thousands)			
EBTDA				
Profit before tax from continuing operations(A)	99,134	96,320	186,092	85,597
Net losses/recoveries on impairment of financial assets (B)	*2,244*	*1,126*	*(43)*	*(43).*
Impairment/write-backs on property, plant and equipment and intangible assets (C)	*2,616*	*2,138*	*1,742*	*1,742.*
Net provisions for risks and charges (D)	2,075	879	1,280	1,280
EBTDA [(A)+(B)+(C)+(D)]	**106,069**	**100,463**	**189,071**	**88,576**

(6) Return on RWA (Risk weighted assets): ratio between "Operating income" and Average RWA (calculated as the average of the beginning and the end of the year balances). The following table shows the breakdown of the calculation of the RoRWA shown in the table above as of December 31, 2016, 2015 and 2014.

	At and for the year ended at December 31			
	2016	**2015**	**2014**	**2014 normalized**
	(in € thousands, except percentages)			
RoRWA				
Operating income (A)	164,007	141,886	217,993	117,411
Risk-Weighted Assets (RWA)	1,410,612	1,065,819	947,139	947,139
Average Risk-Weighted Assets (RWA) (B)	1,238,216	1,006,479	904,401	904,401
RoRWA [(A)/(B)]	**13.2%**	**14.1%**	**24.1%**	**13.0%**

(7) Ratio between RWA (Risk weighted assets) and due from customers.

(8) Ratio between "Operating income" and due from customers (calculated as the average of the beginning and the end of the year balances).The following table shows the breakdown of the calculation of the operating income/average due from customers shown in the table above as of December 31, 2016, 2015 and 2014.

	As of December 31,			
	2016	**2015**	**2014**	**2014 normalized**
	(in € thousands, except percentages)			
Operating income/Average due from customers				
Operating income (A)	164,007	141,886	217,993	117,411
Due from customers	2,499,094	1,962,004	1,554,957	1,554,957
Average due from customers (B)	2,230,549	1,758,481	1,345,768	1,345,768
Operating income/Average due from customers [(A)/(B)]	**7.4%**	**8.1%**	**16.2%**	**8.7%**

(9) The following table shows the breakdown of the calculation of the interest margin/ interest income and similar revenues shown in the table above as of December 31, 2016, 2015 and 2014.

	As of December 31,			
	2016	2015	2014	2014 normalized
	(in € thousands, except percentages)			
Interest margin/ interest income and similar revenues				
Interest margin (A)	159,205	133,048	208,311	107,729
Interest income and similar revenues (B)	190,255	161,946	252,551	151,969
Interest margin/ interest income and similar revenues [(A)/(B)]	**83.7%**	**82.2%**	**82.5%**	**70.9%**

(10) Ratio between the sum of "Administrative costs", "Impairment on tangible and intangible assets", and "Operating income". As of December 31, 2016 and 2015 the cost/income ratio *adjusted (combined)* was equal to 32% and 30% respectively. The following table shows the breakdown of the calculation of the Cost/income ratio shown in the table above as of 2016, 2015 and 2014.

	As of December 31,			
	2016	2015	2014	2014 normalized
	(in € thousands, except percentages)			
Cost/income ratio				
Administrative costs (A)	63,642	45,567	35,954	35,954
Impairment/write-backs on property, plant and equipment and intangible assets (B)	2,616	2,138	1,742	1,742
Operating income (C)	164,007	141,886	217,993	117,411
Cost/income ratio [(A)+(B)] / (C)	**40.4%**	**33.6%**	**17.3%**	**32.1%**

(11) Ratio between the sum of "Administrative costs" net of "Adjustment related to non-recurring administrative costs", "Impairment on tangible and intangible assets" and "Operating income".

The following table shows the breakdown of the calculation of the Cost/income ratio adjusted shown in the table above as of December 31, 2016, 2015 and 2014.

	For the year ended at December 31			
	2016	2015	2014	2014 normalized
	(in € thousands, except percentages)			
Cost/income ratio adjusted				
Administrative costs	63,642	45,567	35,954	35,954
Non-recurring administrative costs(*)	(12,641)	(5,149)	—	—
Administrative costs net of adjustment for non-recurring administrative costs (A)	51,001	40,418	35,954	35,954
Impairment/write-backs on property, plant and equipment and intangible assets (B)	2,616	2,138	1,742	1,742
Operating income (C)	164,007	141,886	217,993	117,411
Cost/income ratio adjusted [(A)+(B)] / (C)	**32.0%**	**30.0%**	**17.3%**	**32.1%**

(*) For the year ended December 31, 2016 administrative costs include non-recurring charges of €12,641 thousand, gross of tax, relating to: (i) the Magellan acquisition for €4,940 thousand, (ii) the costs of integrating Magellan, mainly relating to consultation services, equal to €967 thousand, (iii) the costs of the waiver connected to Magellan's delisting process equal to €473 thousand, (iv) the IPO process for €3,505 thousand (v) other costs mainly related to the prepayments of certain liabilities of Magellan amounting to €576 thousand. Administrative costs for 2016 include extraordinary contributions to the Resolution Fund, equal to €2,179 thousand. For the year ended December 31, 2015 administrative costs include non-recurring charges for a total of €4,048 thousand, gross of the tax effect relating to our possible public listing (which was later brought to a halt) equal to €1,636 thousand, to costs relating to the analysis of possible acquisitions equal to €1,821 thousand and to costs relating to increased indirect taxes for €591 thousand. Administrative costs for 2015 include extraordinary contributions to the Resolution Fund, equal to €1,101 thousand.

(12) Operating costs include "Administrative costs" and "Impairment on tangible and intangible assets". "Average due from customers" are calculated as the average of the beginning and the end of the year balances.

(13) The weighting applied to receivables from the Public Debtors is equal to 50%.

(14) Ratio between the sum of "Shareholders' equity", "Net profit or loss for the year" (net of the dividends paid) and "Shareholders' equity".

(15) Average days of late payment of the Italian National Healthcare System (INHS).

(16) Source: FENIN data from the Spanish healthcare system.

(17) Source: Apifarma, data from the Portuguese healthcare system.

(18) Average balances calculated based on the accounting data on end-of-three months balances.

(19) Ratio between the "Net profit or loss for the year" and "Average assets".The following table shows the breakdown of the calculation of the RoA shown in the table above as of December 31, 2016, 2015 and 2014.

	As of December 31			
	2016	**2015**	**2014**	**2014 normalized**
	(in € thousands, except percentages)			
ROA				
Profit for the year (A)	72,137	68,791	124,378	57,468
Average assets(*) (B)	4,151,045	3,094,737	2,391,379	2,391,379
ROA [(A)/(B)]	**1.7%**	**2.2%**	**5.2%**	**2.4%**

(*) Average balances calculated on the basis of data from the accounting records at the end of the quarter.

(20) Ratio between "Dividends paid" and "Net profit or loss for the year" referred to the consolidated financial statement of the Group.

The following table shows the breakdown of the calculation of the dividend payout ratio shown in the table above as of December 31, 2016, 2015 and 2014.

	For the year ended at December 31			
	2016	**2015**	**2014**	**2014 normalized**
	(in € thousands, except percentages)			
Dividend payout ratio				
Dividends paid (A)	72,126	68,765	48,450	48,450
Profit for the year (B)	72,137	68,791	124,378	57,468
Dividend payout ratio [(A)/(B)]	100.0%	**100.0%**	39.0%	**84.3%**

(21) Ratio between "Dividends paid" and average number of shares.

(22) The following table shows the breakdown of the calculation of the RoA adjusted shown in the table above as of December 31, 2016, 2015 and 2014.

	As of December 31,			
	2016	**2015**	**2014**	**2014 normalized**
	(in € thousands, except percentages)			
ROA adjusted				
Adjusted profit for the year (A)	83,492	72,310	124,378	57,468
Average assets(*) (B)	4,151,045	3,094,737	2,391,379	2,391,379
ROA adjusted [(A)/(B)]	**2.0%**	**2.3%**	**5.2%**	**2.4%**

(*) Average balances calculated based on the accounting data on end-of-three months balances.

Prudential Requirements

The table below sets forth our own funds and prudential requirements as of December 31, 2016, 2015 and 2014.

	As of December 31,		
	2016	2015	2014
	(in € thousands, except percentages)		
Common Equity Tier 1 CET1 before prudential filters	261,139	262,012	262,106
Additional Tier 1 Capital (AT1)	—	—	—
Tier 2 Capital (T2)	—	0	0
Own funds	**235,345**	**259,265**	**260,053**
Credit and counterparty risk	82,998	60,809	52,831
Credit valuation risk	76	—	—
Market risks:	—		
a) Standardized approach	—	—	*94*
b) Internal models	—	—	—
c) Concentration risk	—	—	—
Operational risk:	—		
a) Basic indicator approach	*29,775*	*24,457*	*22,846*
b) Standardized models	—	—	—
c) Advanced measurement approach	—	—	—
Total capital requirements	**112,849**	**85,266**	**75,771**
Risk-weighted assets (RWA)	1,410,612	1,065,819	947,139
RWA/total assets	29,8%	32.1%	31.3%

The table below sets forth the own funds attributable to the Banking Group and minority interest shareholders as of December 31, 2016, 2015 and 2014, under the Basel III framework.

	As of December 31,		
	2016	2015	2014
	(in € thousands, except percentages)		
Banking Group Regulatory Capital Ratios			
Common Equity Tier 1/Risk-weighted assets (CET1 Capital Ratio)	16.7%	24.3%	27.5%
Tier 1 Capital/ Risk-weighted assets (Tier 1 Capital Ratio)	16.7%	24.3%	27.5%
Total Own funds/ Risk-weighted assets (Total Capital Ratio)	16.7%	24.3%	27.5%
Leverage ratio(1)	4.9%	6.1%	7.2%
Risk-weighted assets	1,410,612	1,065,819	947,139

(1) Ratio between the sum of "Shareholders' equity", "Net profit or loss for the year" (net of the dividends paid) and "Shareholders' equity".

RISK FACTORS

An investment in the Offer Shares is subject to a number of risks. You should carefully consider all of the risks described below related to us, our business, our industry, the market in which we operate and the Offer Shares. The risks set forth below should be read and considered in conjunction with the totality of the information presented in this Offering Circular. Although the risks described below are those that we consider material, they may not be the only ones we may face. Additional risks and uncertainties not presently known to us or that we consider immaterial may also impair our business operations.

Risks Related to Our Business

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

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

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

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

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

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

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

We generate a significant percentage of our revenue in Italy (97.2%, 86.7%, and 86% of our consolidated operating income for the years ended December 31, 2014, 2015, and 2016 respectively) and, therefore, our results depend in particular on Italian economic conditions which, in turn, are affected by European and global economic trends. Italy's GDP increased by 0.9% in 2016, compared to an increase of 0.8% in 2015, and a decrease of 0.3% in 2014 (*Source*: Istat). Economic performance in Italy has been significantly influenced by the global financial crisis and has been characterized by economic stagnation. In particular, since the second half of 2011, the Italian economy went through a prolonged phase of recession that culminated at the end of 2014. Beginning in 2015, the Italian economy has entered a phase of recovery, albeit weak, due to: a gradual stabilization in domestic demand, moderately favorable dynamics in foreign trade, and an improved level of production with positive effects on employment levels.

However, on January 13, 2017, the rating agency DBRS Ratings Limited ("**DBRS**") announced that it had downgraded the Republic of Italy's Long-Term Foreign Currency and Local Currency Issuer Ratings from A (low) to BBB (high) reflecting uncertainty over the government's political ability to sustain the structural reform effort and continuing weakness in the country's banking system amid a period of fragile growth. In consideration of our exposure to public and non-profit entities as well as of the circumstance that DBRS operates as the Group's External Credit Rating Agency ("**ECAI**"), our regulatory capital ratios have been adversely affected by such downgrade—see "*—We may be unable to meet the minimum capital adequacy requirements*". Our subsidiary Magellan generates a significant percentage of revenue in Poland. Therefore, its results depend in particular on Polish economic conditions which, in turn, are affected by European and global economic trends. Since the October 2015 parliamentary elections in Poland, the new government has initiated a number of new legislative measures affecting key institutions in Poland, and introducing new taxes (such as a tax on financial institutions and a retailer turnover tax). These developments and any further legislative changes may adversely affect Magellan's business, results of operations or financial condition, which in turn could have a material adverse effect on our business, results of operations and financial condition.

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

There can be no assurance that the measures put in place to address the volatility and turbulence in financial markets, the depressed macroeconomic environments and the debt of certain sovereign entities in Europe will be successful. New turmoil in the banking system and financial markets, further consolidation in the banking and financial services industry, or market failures, could trigger a further crunch in credit access, low liquidity levels, and significant volatility in the financial markets. Such factors could have a number of effects on our operations, including bankruptcy of our counterparties and increase our costs of funding. Therefore, should Italian or global economic conditions worsen, our services and products may consequently decline due to a variety of factors, including a decrease in the government expenditure in goods and services.

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

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

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

In addition, if any of our customers become subject to bankruptcy or insolvency proceedings, they may also not be able to meet their contractual obligations, such as (although to a lesser degree) the payment of commission for our credit management services.

In 2014, we expanded our non-recourse factoring business by purchasing receivables owed by financially vulnerable public entities (including municipalities, provinces and mountain communities), which at the time of purchase were already impaired assets, which however do not constitute a material part of our current business. Such activities could result in an increase of our (net and gross) non-performing exposures. We determine the price of the receivables based on the financial position of the relevant debtors and the recovery rate and time of recovery. However, we may still be exposed to capital losses and a general deterioration of asset quality as a result of our debtors' financial vulnerability, which could have a material adverse effect on our business. Impairment losses and reversals on loans and receivables totaled €2,244 thousand and €1,126 thousand for the years ended December 31, 2016 and 2015.

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

This so-called "country risk" could affect our clients' and their debtors' financial situation, as well as our credit management business. Moreover, our securities portfolio only includes securities issued by the Italian government. See "*—Our exposure to Italian government sovereign debt is significant and we may be adversely impacted by any adverse change in the creditworthiness of the Republic of Italy"*. This could determine a negative impact on our liquidity and on capital requirements. See "*—Our dependence on access to the capital markets to maintain certain levels of liquidity and to obtain long-term financing could have a material adverse effect on our business, financial condition, or results of operation*". "*—We may be unable to meet the minimum capital adequacy requirements*" and "*—Our exposure to Italian government sovereign debt is significant and we may be adversely impacted by any adverse change in the creditworthiness of the Republic of Italy"*.

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

	As of December 31, 2016
	(in € thousands)
Securities portfolio(1)	2,014,405
Receivables owed by the Italian government(2)	408,700
Receivables owed by the Spanish government(2)	34,577
Receivables owed by the Polish government(2)	510
Receivables owed by the Czech government(2)	830
Receivables owed by the Slovakian government(2)	687
Receivables owed by the Portuguese government(2)	—
Total	**2,459,708**
Incidence on total assets	51.9%
Incidence on net equity	940.2%

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

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

As of December 31, 2016, 2015 and 2014, the Group's securities portfolio consists of Italian governments securities, recorded in the Group financial statements as financial activities under "available-for-sale financial assets" ("AFS") and "held-to-maturity financial statements" ("HTM").

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

The credit standing of the governments is subject to monitoring and evaluation by rating agencies. Set forth below are the ratings assigned by Standard & Poor's, Fitch Ratings, Moody's and DBRS to the Republic of Italy, Spain, Portugal, Poland, Czech Republic and Slovakia as of December 31, 2016, 2015, and 2014.

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

Italy	2016	2015	2014
S&P Long-term Company Rating (Foreign)	BBB–	BBB–**	BBB–**
Moody's Long-term Company Rating (Foreign)	Baa2	Baa2**	Baa2**
Fitch Long-term Company Default Rating (Foreign)	BBB+	BBB+	BBB+
DBRS Long-term Company Rating (Foreign)	BBB (high)	A low	A low

Spain	2016	2015	2014
S&P Long-term Company Rating (Foreign)	BBB+	BBB+	BBB
Moody's Long-term Company Rating (Foreign)	Baa2	Baa2	Baa2
Fitch Long-term Company Default Rating (Foreign)	BBB+	BBB+	BBB+
DBRS Long-term Company Rating (Foreign)	A (low)	A low	A low

Portugal	2016	2015	2014
S&P Long-term Company Rating (Foreign)	BB+	BB+**	BB
Moody's Long-term Company Rating (Foreign)	Ba1	Ba1	Ba1
Fitch Long-term Company Default Rating (Foreign)	BB+	BB+	BB+
DBRS Long-term Company Rating (Foreign)	BBB (low)	BBB low	BBB low

Poland	2016	2015	2014
S&P Long-term Company Rating (Foreign)	BBB+	A–	A–
Moody's Long-term Company Rating (Foreign)	A2	A2	A2
Fitch Long-term Company Default Rating (Foreign)	A–	A–	A–
DBRS Long-term Company Rating (Foreign)	A	A	

Czech Republic	2016	2015	2014
S&P Long-term Company Rating (Foreign)	AA–	AA–	AA–
Moody's Long-term Company Rating (Foreign)	A1	A1	A1
Fitch Long-term Company Default Rating (Foreign)	A+	A–	A–
DBRS Long-term Company Rating (Foreign)	N.A.	N.A.	

Slovakia	2016	2015	2014
S&P Long-term Company Rating (Foreign)	A+	A+	A
Moody's Long-term Company Rating (Foreign)	A2	A2	A2
Fitch Long-term Company Default Rating (Foreign)	A+	A+	A+
DBRS Long-term Company Rating (Foreign)	A(high)	N.A.	

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

Moreover, in the table below we indicate the amount of losses on loans and receivables, as well as analytic credit devaluation, carried out with reference to envisaged losses concerning future impaired loans, as well as value readjustments concerning the data relating to the past years, all recorded in the Group profit and loss for the financial years closed as of December 31, 2016, 2015, and 2014.

	Year ended as of December 31		
	2016	**2015**	**2014**
	(in € thousands)		
Losses on loans	206	75	260
Specific credit devaluation	2,548	(92)	(366)
Analytic credit devaluation	(574)	**1,143**	**63**
Value readjustments on impaired loans and receivables	2,180	**1,126**	**(43)**

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

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

For more information, see the sections on "*Business*" and "*Industry*".

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

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

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

While the Group pursues a strategy of (i) strengthening and further growing its own Traditional Activities in additional areas of the Southern European Market where the Group itself has been active for several years (i.e. Spain and Portugal), and (ii) expanding in new European markets, organically or through acquisition as per the recent Magellan Acquisition has allowed the Group to obtain a significant presence in the Eastern European Market and, at the same time, to diversify the range of financial services offered to clients, there is no certainty whether in the future the Company will be able to properly pursue the strategy of diversifying its activities, in terms of both offered services and their localization, in order to reap possible positive effects, which could have a material adverse effect on our business, results of operations and financial condition.

For further information on the main activities of the Group and the geographical areas where they are carried out, as well as on the strategy pursued by the Company see "*Business*".

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

With reference to our Traditional Activities, most of our key customers are large multinational and Italian companies with whom we have built and maintained strong commercial relationships. For the year ended December 31, 2016, 46% of the total volume of our managed and purchased receivables and 40% of the volume of receivables relating to our non-recourse factoring business derived from our top ten customers. These clients have been our customers for an average period of more than 18 years as of December 31, 2015 and approximately ten years with respect to our non-recourse factoring business. However, the majority of our contracts with customers neither (i) impose any obligation on us to purchase non-recourse receivables in the future, nor (ii) do they contain any exclusivity clauses or impose any obligation on customers to continue supplying the Group, thus making it relatively simple for counterparties to exercise withdrawal rights, and therefore we have limited visibility with respect to future transactions. Therefore, we may not be able to achieve the same volume of receivables in the future, and the loss of any of our key customers or a significant decrease in the business generated from them, could have a material adverse effect on our business, results of operations and financial condition. For further information, see "*Business—Description of Our Business Activities by Service Segments*".

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

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

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

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

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

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

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

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

Furthermore, Poland (the main market in which Magellan carries out its business) has registered a mostly stable trend in terms of growth with reference to the public spending concerning local administrations (consisting in €53 billion in 2015, representing 2% of GDP) (*Source*: *OECD and IMF*).

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

For further information on the possibility that the Governments of the countries where the Group operates may implement efficiency measures that could significantly reduce DSO, see "*—Governments may implement efficiency measures that could significantly reduce DSO and demand for our services*". For further information on the laws governing the repayment of debts by the public administrations, see "*Supervision and Regulation—Italy—Enforceability of the Sale of Receivable Against Public Entities".*

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

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

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

Following the Magellan Acquisition, we also carry out recourse factoring, although to a lesser extent.

As of December 31, 2016 the book value of the loans and receivables to customers arising from non-recourse factoring activities was equal to approximately €2,107 million, with an incidence of 84.3% on the total amount of loans to and receivables from customers. For more information on the previous years' data as of December 31, see "*Selected Statistical Information—Credit quality—Credit quality ratios*".

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

	December 31, 2016	December 31, 2015
	(in € millions)	
Factoring	2,107.0	1,926.0
Leasing	6.9	—
Loans to customers	317.2	—
Other loans	68.0	36.0
Total Due from customers	**2,499.1**	**1,962.0**

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

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

The creditworthiness of our counterparties may deteriorate.

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

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

In the past three years, we have brought our credit exposure classification and evaluation policies in line with applicable supervisory regulations, international accounting standards and the Supervisory Review and Evaluation Process ("**SREP**"). Our capital absorption relating to credit risk as of December 31, 2016, 2015, and 2014 was equal to €82,998 thousand, €60,809 thousand, and €52,831 thousand, respectively. Our capital absorption relating to concentration risk as of December 31, 2016, 2015, and 2014 was equal to €15,244 thousand, €11,522 thousand and €9,992 thousand, respectively. In relation to the business activities carried out by the Group, the risk concerning the deterioration of credit quality to which the Group is exposed is closely connected to the so called "country risk". See "*—Our business is dependent on our customers and the debtors that they supply, each of whom may face economic uncertainty and changes in the regulatory landscape which could impact their need for our services".*

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

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

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

We cannot exclude the possibility that in the future there could be a deterioration of our receivables portfolio, which in turn could have a material adverse effect on our business, results of operations and financial condition. For further information, see "*Selected Statistical Information—Credit quality*" and "*Industry—Competition—Overview of credit quality indicators*".

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

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

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

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

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

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

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

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

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

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

The BRRD requirements fall into three main categories, namely (i) crisis prevention measures, including recovery plans drawn up by companies and resolution plans drawn up by resolution authorities, (ii) early intervention measures to ensure the prompt intervention by competent authorities following the first signs of a credit institution's or an investment bank's financial instability and (iii) crisis resolution measures, including the bail-in tool which transfers a large portion of a bank's restructuring costs from the Member State to the bank's shareholders and creditors, thus reducing any moral hazard risks. If a distress situation were to occur, as a result of which we became subject to resolution procedures, our shares would be written down and/or any liabilities would be cancelled or substantially reduced. Moreover, the shareholding of our shareholders may become considerably diluted if other liabilities were converted into shares at particularly unfavorable conversion rates.

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

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

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

- the adoption of the so-called "**Basel IV**" which includes a new package of rules on the capital and liquidity of banks and introduces standards and criteria which are more stringent than those provided by Basel III;
- the amendment to the legislation on the so-called "past due" criteria for the determination and treatment of past due exposures towards debtors belonging to the public administration. In particular, the classification of the exposures towards debtors belonging to the public administration could be aligned to the classification adopted for the private sector. As a result of such change of the regulatory framework, the exposures would be "past due" if amounting to over 5% of the total exposure towards the same debtor and overdue by more than 90 days, instead of the preferential treatment where a single payment interrupts the past due calculation. The potential application of the more stringent criteria (which are, under the framework adopted by the Company, currently risk-weighted at 100% as a consequence of the recent DBRS rating downgrade of the Italian sovereign debt—50% before such downgrading) could negatively affect the capital absorption of our risk-weighted assets and, as a result, could have a negative impact on our capital ratios (including the CET1 ratio). In particular, this potential change of the regulatory framework, would increase the amount of our exposure classified as "past due" (risk-weighted at 150%). For more information, see "*Risk Management—Credit risk management policies*"; and
- the "EU Banking Reform" Package published on November 23, 2016, which is aimed at introducing certain changes to the provisions included, inter alia, in the CRD IV, the CRR and the BRRD.

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

For more information, see "*Supervision and Regulation*". Also see "*Business—Our Key Competitive Strengths*".

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

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

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

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

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

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

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

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

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

For the years ended December 31, 2016 and 2015 we have been required to make ordinary contributions to the Single Resolution Fund equal to approximately €1.1 million and €0.4 million, respectively. Ordinary contributions to the Single Resolution Fund are made annually and have already been paid and recorded for both financial years. In addition we have been required to make extraordinary contributions to the Single Resolution Fund in 2016 and 2015, following the financial distress of four Italian financial institutions (i.e. Banca Popolare dell'Etruria e del Lazio S.C, Cassa di Risparmio della Provincia di

Chieti S.p.A., Banca delle Marche S.p.A. and Cassa di Risparmio di Ferrara S.p.A.) respectively equal to €2,179 thousand and €1,101 thousand. The extraordinary contributions were paid and recorded by us in 2015 and in 2016. As of the date of this Offering Circular, we have not been required to make any further extraordinary contributions.

If the financial resources of the Interbank Deposit Guarantee Fund and/or the Single Resolution Fund are insufficient to cover any losses, or if as a result of costs or other expenses incurred by such funds in compliance with the regulations governing their operation the above percentages are not reached, financial institutions may be required to make extraordinary contributions, as in the case of the four Italian financial institutions mentioned in the paragraph above. As of December 31, 2016 the recorded cost, gross of income taxes, was equal to €3.8 million. Such cost was composed of (i) €1.1 million representing the annual ordinary contribution to the Resolution Fund which has already been paid, (ii) €0.5 million representing the contribution to the Interbank Deposit Guarantee Fund, and (iii) €2.2 million representing the extraordinary contribution to the Resolution Fund. For December 31, 2015, the gross cost was equal to €1.6 million. As of December 31, 2016, the contribution, net of tax, was equal to €2.6 million. Should we continue to be required to make large contributions, or should the guarantee funds fail, this could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

As of December 31, 2016, the Common Equity Tier 1 Capital Ratio, the Tier 1 Capital Ratio and the Total Capital Ratio of the Banking Group, computed without including profits generated during the year, were all equal to 16.7%. The same ratios determined in accordance with the criteria for prudential consolidation set out under the CRR—including the entities of the Magellan Group in the consolidation perimeter, but excluding BFF Lux Holdings, that was put into liquidation on June 20, 2016—were respectively equal to 16.4%, 16.5% and in the absence of AT1 and Tier 2 issuances, above the 15% target for dividend distribution autonomously established by the Group. The decrease in our own funds equal to approximately 9.2% as of December 31, 2016 and, concerning the solvency indicators as of December 31, 2016, a CET 1 reduction of 7.6%, a Tier 1 reduction of 7.6% and a Total Capital Ratio reduction of 7.6% was mainly due to the completion of the Magellan Acquisition. As of the same date, the estimated risk weighted assets increased by approximately €344.8 million.

For more information on the legal framework governing the own funds of banks, See "*Supervision and Regulation*" and "*—The implementation of the BRRD, and in particular its bail-in provisions, could significantly impact our shareholders by shifting losses to them*". See also "*Selected Financial Information and Other Data—Economic, operating and financial indicators*" and "*Risk Management—Basel III rules and capital adequacy—Capital adequacy*". As of the date of this Offering Circular our capital adequacy levels, at a consolidated level, exceed the regulatory limit.

However, in 2016 we were subject to the Bank of Italy's SREP in accordance with applicable regulations. Following the conclusion of the annual SREP process, on March 10, 2017, we received a Bank of Italy communication with which the same regulatory authority informed us of the initiation of the administrative procedure concerning the adoption of a capital decision for the provision of capital requirements with which we shall have to comply in addition to the minimum level of requirements relating to the Group's overall exposure to risks. For further information, see "*Business—Legal Proceedings—Bank of Italy Inspections*".

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

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

Furthermore, we cannot accurately predict whether future changes may be made to certain criteria established by the Relevant Authority in the countries in which we operate and in particular, whether changes will be made to the exposure classes established by the CRR for states and central administrations (currently 0%) as well as local authorities (20%). Accordingly, such changes could make it more difficult for us to satisfy and comply with capital adequacy levels, standards and/or regulations. On January 13, 2017, DBRS—which is the Group's ECAI—announced that it had downgraded the Republic of Italy's Long-Term Foreign Currency and Local Currency Issuer Ratings from A (low) to BBB (high). This downgrade had a negative impact on our capital adequacy levels through an increase in the value of risk weighted assets, due to our exposure to public and non-profit entities. Although we have taken certain actions in order to counterbalance the impact of the downgrade (see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors affecting our Results of Operation—Macroeconomic overview*"), we cannot give assurances that any or all such actions be sufficient or successful.

We have adopted certain measures aimed at strengthening our own funds in order to mitigate the impact of the DBRS downgrade and, in particular, to ensure that we maintain the 15% Total Capital Ratio target autonomously established by the Group. Among these measures, our Board of Directors has resolved the issuance of the 2027 Notes, which consist in a contribution to the own funds for more than €98 million, corresponding to the net proceeds of the issuance (resulting in a capital impact of approximately 5.4% of our Total Capital Ratio). See "*Business—Funding—€100.0 Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2027*" and "*Business—Description of Our Business—Non-Recourse Factoring*". Furthermore, our Board of Directors has decided to raise the percentage of the estimated amount of late payment interest to be collected from 40% to 45% (resulting in a one-off positive capital impact of potentially up to an additional 1% approximately, of our Total Capital Ratio). A negative impact on risk weighted assets may also derive from the occurrence of other factors—in addition to future downgrades by multiple notches regarding the Republic of Italy—such as loan impairment, asset value deterioration, increases in litigation expenses or any other external or unpredictable factors beyond our control, including further request from the relevant Supervisory Authorities. Should we fail to meet the required capital adequacy levels for these or any other reason, it could have a material adverse effect on our business, financial condition and results of operation.

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

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

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

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

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

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

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

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

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

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

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

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

We are exposed to the sovereign debt of the Italian government, which as of December 31, 2015 was equal to approximately €2,170 billion (*Source*: IMF World Economic Outlook April 2016). The nominal, book and fair value of Italian government securities held by the Group as of December 31, 2016 were equal to €1,971.5 million, €2,014.4 million and €2,018 million, respectively; the incidence of Italian government securities on our total assets (using the book value) had increased to 42.5%. The nominal, book and fair value of Italian government securities held by us as of December 31, 2015 were equal to €1,218.5 million, €1,252.3 million and €1,256.3 million, respectively; these Italian government securities (using the book value) represented 37.7% of our total assets. We are therefore exposed to changes in the price of Italian public debt securities. Any tensions in or volatility affecting the sovereign bond market could have a material adverse effect on our business, results of operation and financial condition. As of December 31, 2016 and 2015, we did not hold any structured securities in our portfolio.

For further information regarding the nominal, book and fair value of Italian government securities held by the Group, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting our Results of Operation—Italian Financial Crisis*" and "*Selected Statistical Information—Investment portfolio*".

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

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

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

Any downgrade concerning the Italian sovereign debt may result in a reduction of the value of our securities. Starting from January 1, 2018 any reduction of the value of securities classified in our AFS portfolio would have no impact on our capital requirements, since an exemption from the fair value adjustment on our own funds will apply thereafter, and with respect to the refinancing of our overall portfolio, there would be an increase in any amounts paid as collateral for transactions.

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

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

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

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

Our ability to access funding sources on favorable economic terms is dependent on a variety of factors, including a number of factors outside of our control, such as liquidity constraints, general market conditions and confidence in the Italian and European banking system. Moreover, since obtaining a banking license, we have been able to diversify and expand our sources of funding, while also significantly reducing the corresponding funding costs.

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

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

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

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

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

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

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

In addition to the secured financing sources granted to the Group by the banking system (representing approximately €405 million as of December 31, 2016, not taking into account repurchase ("repo") transactions and considering that financial sources granted by the banking system in favor of Magellan are mainly represented by secured financing), we may have access to liquidity guaranteed by the ECB by offering as collateral Italian government bonds registered in our investment portfolio and receivables towards the public authorities in relation to our factoring business as a collateral using the ABACO platform (the "**Collateral**"). As of December 31, 2016 such amount corresponded to €0 million. Moreover, we also use securities included in our portfolio as Collateral to fund our "repo" transactions entered into with third parties on the market. However, it may be impossible to monetize the Collateral as a result of the inability of or delay by our debtors to pay their relative debts. As a result, we may not be able to refinance or repay these forms of financing. In particular, there is the risk that it may be impossible to monetize in the short term without, *inter alia*, worsening the Company's liquidity risk as at the term of the financing transaction the resources are again available for new refinancing transactions and/or used to face the liquidity risk of the Group given the high level of marketability of the relevant investment activities.

In terms of liabilities and commitments, our Collateral had a nominal value of €0 million as of December 31, 2016 and a nominal value of €1.1 million as of December 31, 2015, comprising €1.1 million of financial assets (over which a pledge has been granted in favor of the ECB and other financial institutions on the basis of Cassa Compensazione e Garanzia regulations) and €164 thousand of receivables from customers (pledged by the ECB through the ABACO platform) almost entirely resulting from factoring operations for receivables from the public authorities. Should the Italian state not be able to repay the Government Bonds making up the Collateral and/or to repay receivables due from the public authorities forming the Collateral, and/or should one or more of the public authorities or the third-party debtors, with regard to which we have granted a pledge over receivables due as Collateral, not be able to repay their debts, in full or in part, it may become difficult or impossible for us (in the absence of equivalent forms of refinancing) to repay the abovementioned forms of financing, or it could force us into accessing more costly forms of refinancing and/or burdensome conditions than usual. Any of these circumstances could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

Although the financial years of 2013, 2014, 2015 and 2016 showed positive results, we have experienced a more subdued growth rate of revenues (gross interest income and net commissions) (CAGR 9.9% from

2014 through 2016) albeit the significant increase in the receivables purchases on a non-recourse basis. Our growth in revenues has been influenced by the decrease in Italy of the returns on the receivables portfolio and the reduction of the payment times which took place in 2014.

Contrary to expectations, the Group's total managed volumes in our Traditional Activities showed a decreasing trend, falling from €6,286,414 thousand as of December 31, 2015 to €5,879,185 thousand as of December 31, 2016. In particular, this decrease was mostly due to reduced levels in the use of non-recourse factoring in Spain following liquidity injections of the Spanish government, and partly due to reduced credit management volumes from some of the Group's credit management clients.

The increase in yearly non-recourse factoring volumes from €2,009 million as of December 31, 2015 to €2,017 million as of December 31, 2016 was less than expected.

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

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

We cannot accurately predict whether such actions and the investments we have made to support our growth strategy will be effective or profitable. For example: (i) increasing volumes in order to strengthen our market share and/or (ii) introducing our services to new foreign markets (such as Portugal) and new segments of public administration (including the purchase of tax credits claimed by companies from the competent Italian tax authorities), may not produce the results we expected since we do not have extensive experience or a database with sufficient information on payment procedures in the new markets and business sectors. In 2015, we also expanded our non-recourse factoring business to debtors of the non-healthcare public administration in Spain (including the both the private and public sectors) and made investments to support our growth in the Italian, Spanish and Portuguese markets (including the launch of "*Conto Facto*" in Italy and "*Cuenta Facto*" in Spain; as of December 31, 2016 there were 14,118 "*Conto Facto*" and "*Cuenta Facto*" accounts opened within the Group in Italy and Spain, for a total collection of €822.4 million), and, starting from 2016, also in the German market (through the online platform *Weltsparen.de*), which could turn out to be ineffective. In addition, the investments we made since 2014 in new personnel to support growth may not reach adequate quality levels or we may not be able to retain such personnel. The high level of specialization of our key personnel in our credit management and non-recourse factoring businesses may also hinder our growth strategy of targeting new markets. With reference to our growth in the Eastern European Market, see "*—We may be unable to successfully integrate Magellan's business*".

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

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

As of December 31, 2016, the distribution via the abovementioned Intermediaries has generated business volumes of €88,710 thousand in Italy (representing 3.4% of the business volumes generated in Italy) and €15,267 thousand in Spain (representing 4.4% of the business volumes generated in Spain), for a total of €103,977 thousand (representing 3.5% of the business volumes generated at a Group level).

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

In addition, we are also considering starting to operate in other markets in the future. In February 2017, we submitted our first filing with the Bank of Italy to offer factoring services in Greece under the freedom to provide services and we expect that we shall receive the relevant authorization by the first half of 2017. See "*Business—Recent Developments—Expansion of our business in Greece*".

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

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

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

The financial contribution of the Magellan Group to our results for the year ended December 31, 2016 and since the completion of the Magellan Acquisition was a profit of €2.9 million which includes €2.2 million for non-recurring costs incurred since June 2016.

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

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

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

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

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

	December 31, 2016	December 31, 2015
	(in € millions except percentages)	
Consolidated perimeter of the Banking Group		
Own funds	235.3	259.3
CET 1 Capital Ratio	16.7%	24.3%
Tier 1 Capital Ratio	16.7%	24.3%
Total Capital Ratio	**16.7%**	**24.3%**

The decrease in own funds and the capital ratios was mainly due to the Magellan Acquisition which had an effect on own funds equal to €22.1 million, primarily composed of the acknowledgement of goodwill, and greater capital requirements equal to €27 million, relating to the Magellan Group activities. The capital adequacy requirements do not take into account the profit recorded for the first half of 2016, thus assuming a dividend payout of 100.0% of consolidated net income for the year 2016, as proposed on February 13, 2017 by the Board of Directors to the shareholders' meeting upon approval of the 2016 accounts.

In relation to our Banking Group, our risk weighted assets increased by €344,793 thousand from 2015 to 2016 and increased by €118,680 thousand from 2014 to 2015 due to an increase in our business volumes. In particular the increase was due to an increase in credit risk, mainly due to an increase in volumes, which in turn caused an increase in the weighted and non-weighted exposures towards the various counterparties and in particular, towards local and public authorities, both weighted at 20% following the diversification of our counter debtors and the increase of operations in Spain. The increase in the credit risk as of December 31, 2016 is mainly due to the Magellan Acquisition and amounts up to €27 million.

We paid approximately €103.2 million to acquire Magellan, including €22.1 million as goodwill, calculated as the difference between the book value of the acquired equity estimated as of the purchase date and the purchase price. Such amount could change within the 12 months following the purchase date as a result of the allocation of the purchase price to the individual assets and liability items ("**Purchase Price Allocation**" or "**PPA**"). At the end of each financial year there will be an evaluation of the amount recorded as goodwill (*i.e.* an impairment test) in order to determine any impairment, in accordance with IAS 36 ("**Impairment Test**"). Should our ability to generate cash flows or our economic results worsen or significantly differ from the estimates and forecasts concerning Magellan in the future, we would need to make adjustments to the book value of the goodwill. Such adjustments, equal to the difference between the recoverable value and the book value of the goodwill, would involve recording write-downs in our income statement with a corresponding material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

Magellan previously offered products collectively referred to as "**Guarantees**". Through these Guarantees, Magellan agreed to secure or pay suppliers' receivables on behalf of the Centers. As a result of paying a

Center's debt to suppliers, by law Magellan acquired the right to the suppliers' receivables from the Centers.

On January 9, 2015, the Polish Supreme Court ruled in one case that the Guarantee was invalid on the grounds that the aim of the Guarantee was to change the Center's creditor from the supplier in question to Magellan, and therefore the transfer of rights to the receivable to Magellan itself was invalid. This was ruled to be in violation of Article 54 of the Act on Healthcare Activities. After the Polish Supreme Court's ruling, the legal status of the receivable reverted to its previous status and, as a result, the supplier's receivable from the Center remains unpaid for because Magellan's payment under the Guarantee is no longer recognized by law. Under arrangements made between Magellan and the supplier in question, the supplier's receivable are to be used to satisfy Magellan's claim against the supplier in compensation for the original payment made under the Guarantee. Furthermore, in its rulings the Polish Supreme Court has also challenged not only the Guarantee but also entire legal structure which provided for the change of creditor by the way of an assignment of debt obligations. As a result there is a risk that any agreement which includes the abovementioned scheme may be declared invalid. This issue is related to the legal interpretation of Article 54 of the Act on Healthcare Activities, which due to the lack of appropriate regulations, remains unclear. As of the date of this Offering Circular, Polish courts did not establish any clear and stable respective jurisdiction approach with would enable to manage this issue.

According to the Magellan 2015 Annual Consolidated Financial Statements, the total potential risk arising from unfavorable rulings in proceedings concerning Guarantee products that have already been concluded and those pending as of December 31, 2015, was estimated at PLN 2.8 million, a figure that primarily compromises possible court fees and costs to be refunded to the suppliers.

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

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

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

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

As of December 31, 2016, the Magellan Guarantee business amounts to PLN 29.9 million, equal to €6.8 million, representing 0.2% of the total asset of the Group at the same date; considering that these products have been withdrawn from the market, their relative commercial weight is progressively reducing (59% compared to December 31, 2015).

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

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

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

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

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

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

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

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

The capital absorption relating to operational risk was equal to €29,775 thousand, €24,457 thousand and €22,846 thousand, as of December 31, 2016, 2015, and 2014 respectively. Should we breach any of the requirements we are subject to or experience a major issue with any operational risk, this could have an adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

In addition, our ability to remain competitive depends in part on our ability to upgrade our information technology on a timely and cost-effective basis. In the future we may not be able to maintain the level of capital expenditures necessary to support the improvement or upgrading of our information technology infrastructure. If the design of our controls and procedures prove inadequate, or are circumvented, delays in detection or errors in information may result. Consequently, our reputation could be damaged and our competitive position weakened. We may also be subject to disruptions or breaches of its operating systems, or of the infrastructure that supports it, arising from events that are wholly or partially beyond our control. This includes, but is not limited to, disruptions or breaches caused by terrorist activities, computer viruses, disease pandemics, electrical or telecommunication outages, transportation or other services used by us or third parties with whom we conduct business.

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

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

Over the past three financial years, we have experienced certain minor IT system malfunctions which however did not cause a material business interruption. See "*Business—Our Traditional Activities and Business Model—IT System*".

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Additionally, on November 28, 2013, we entered into an agreement with our Chief Executive Officer, Mr. Massimiliano Belingheri, which governs the terms and conditions of his directorship (the "**CEO Agreement**"), as subsequently modified on June 30, 2015, on November 5, 2015 and on February 17, 2017. Pursuant to the CEO Agreement, if we decide: (i) that Mr. Belingheri should not hold office as Director and Chief Executive Officer until the date of approval of our financial statements for the year ended December 31, 2020 (on the same salary as that currently paid and with the same powers as those currently granted to him, except as a result of any changes requested by public authorities or regulatory changes) or (ii) to dismiss the Chief Executive Officer without just cause or for a "bad leaver" cause as set out in the CEO Agreement (including, *inter alia*, certain offences, or, any act of fraud or gross negligence *vis-à-vis* the Company), we would be considered to have terminated his employment, and therefore we would be required to pay a severance payment to the Chief Executive Officer equal to the higher of: (a) 3 times his fixed salary (excluding bonuses, subsidies or other fringe benefits which form part of his current compensation) in the 12 months before the occurrence of the relevant event and (b) €1.6 million (the "**Severance**"). Pursuant to the latest amendment of the CEO Agreement, on February 17, 2017, 25% of the Severance has to be paid through financial instruments. Any further modification or negotiation of the CEO Agreement, as well as making it compliant to the post IPO Remuneration Policy, will be conducted in compliance with our standard remuneration policies. If the CEO Agreement is terminated, we will be required to pay the Severance even if the CEO does not resign from the Board. If we are required to pay the Severance, it could have a material adverse effect on our business, results of operations and financial condition. Should Centerbridge Partners Europe LLP, a subsidiary of Centerbridge Partners, cease to hold a controlling interest in our share capital, a change of control clause set out under the CEO Agreement would be triggered, the latter providing that the Severance would be due and the parties would have to negotiate, in good faith, the continuance of the contractual relationship.

For more information on the CEO Agreement, please see "*Management—Conflicts of Interest—Agreement with the Chief Executive Officer*".

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

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

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

In the ordinary course of our business, we are exposed to the risk of being party to legal, civil, administrative and tax proceedings or actions. Although we believe that we have set aside sufficient reserves to cover ongoing proceedings, we cannot predict with certainty the outcome of such proceedings, which may be unfavorable for us, or whether new unexpected proceedings may arise, both of which could have a material adverse effect on our business, results of operations and financial condition. In the year ended December 31, 2016, we made provisions, in application of prudential criteria, for an aggregate amount of €2,075 thousand to cover risks and charges. See "*Business—Legal Proceedings*". See also "*Business—Description of Our Business Activities by Service Segments*". For more information concerning the risks connected to our receivable portfolios see "*—The creditworthiness of our counterparties may deteriorate*" and "*Selected Statistical Information—Credit quality*".

Additionally, two of our Statutory Auditors, Marco Lori (who will become Chairman of the Board of Statutory Auditors after the initial public offering), and Francesco Tabone (who will resign from his position as Statutory Auditor and Chairman of the Board of Statutory Auditors effective from the Trading Date), were subject to disciplinary proceedings started by CONSOB in April 2016 relating to activities conducted as Statutory Auditors for a financial intermediary different from us which have recently concluded. The disciplinary proceedings were in relation to infringement of Article 21 of the Consolidated Financial Act; Article 39 and Article 40 of CONSOB's regulation for financial intermediaries No. 16790/2007 on investments and portfolio management; and Article 16 of CONSOB and the Bank of Italy's adequacy assessment on compliance, published on October 29, 2007.

Pursuant to CONSOB's Resolution No. 19850 of January 18, 2017 (published on March 7, 2017), Marco Lori and Francesco Tabone must, *inter alia*, pay a fine of €14,000 respectively.

Any future investigations or negative results from our legal proceedings could have a material adverse effect on our business, results of operations and financial condition. See "*Management—Board of Statutory Auditors*".

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

In 2015 and 2016, we were subject to inspections by the Bank of Italy pursuant to Articles 54 and 68 of the Consolidated Banking Law.

The Bank of Italy inspection ended with a favorable opinion and no sanctions were imposed on us nor were there findings concerning conformity requirements. In addition, on September 28, 2015, we sent the Bank of Italy a report, approved by our Board of Directors on September 10, 2015, in which all the activities implemented and planned (and subsequently completed) were set forth in order to reflect our efforts to update our processes at the conclusion of the inspection. We gave an additional notice to the Bank of Italy on July 11, 2016 confirming that we implemented all items set forth in our report from September 28, 2015. The 2015 SREP led to the calculation by the Bank of Italy (a so-called capital decision) of the minimum capital requirement levels to be complied with, in light of the capitalization level and capital targets we have set. The reduction of the capital conservation buffer requirements (on which see below) could not be reflected in the final decision of the regulator on our compliance with the relevant capital requirement as part of the 2015 SREP. The limits set out by the 2015 SREP exclusively relate to the consolidation perimeter and as of December 31, 2016 we have been compliant with the limits provided under the regulatory framework.

Furthermore, in 2016 we were subject to the Bank of Italy's SREP in accordance with applicable regulations. As mentioned previously, following the conclusion of the annual SREP process, on March 10, 2017, we received a Bank of Italy communication with which the same regulatory authority informed us of the initiation of the administrative procedure concerning the adoption of a capital decision, without expressing a specific assessment of the Group's level of risk. For further information, see "*Business—Legal Proceedings—Bank of Italy Inspections*".

With the abovementioned communication, the Group (with reference to the consolidation perimeter for the purposes of the CRR) has been requested to comply with the following minimum capital ratios, each of which including the capital conservation buffer component: (i) 6.55% in relation to the Common Equity Tier 1 ratio, previously set at 7.3%; (ii) 8.35% in relation to the Tier 1 Ratio, previously set at 9.8%; and (iii)10.75% in relation to the Total Capital Ratio, previously set at 13.0%.

We cannot exclude that the SREP process carried out by the Bank of Italy in relation to the Company may lead to the application of more stringent capital requirements with regard to the Group in the future.

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

Furthermore, the Bank of Italy, in connection with the authorization of the Magellan Acquisition, recommended the adoption of specific measures aimed, in particular, at ensuring the full direction and coordination of the Polish subsidiary, with the simultaneous reinforcement of the internal controls system and the extension of our policies to Magellan and its subsidiaries. The Bank of Italy also requested the definition of a capital plan-for a minimum basis of three years-that takes into account all of the planned strategic initiatives and describing the capital management initiatives capable of ensuring the current and future compliance with the supervisory requirements with reference to both the capital decision (SREP) and the ECB recommendation issued in connection with the acquisition by the majority shareholder (maintaining, as provided in our business plan and our dividend policy, a level of Total Capital Ratio of 15% prior to carrying out any distributions of dividends as long as the majority shareholder continues to have a controlling stake in our share capital).

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

In addition, between August and December 2016 we were subject to an inspection carried out by the Bank of Italy in relation to loans granted by the Company to the Bank of Italy through the ABACO platform. Even if the outcome of the inspection was positive and we did not incur any sanctions, we cannot exclude that, following any future evaluations or inspections by the Supervisory Authority, we may have to put into place further measures in order to respond to any imposed requirements. Should we be forced to implement new initiatives, or should our initiatives be insufficient to cure any deficiencies, it could have a material adverse effect on our business, results of operations and financial condition. See "*Business—Legal Proceedings—Tax Proceedings*" and "*Business—Legal Proceedings—Bank of Italy Inspections*".

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

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

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

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

As of December 31, 2016 (not including Magellan) and December 31, 2015, the late payment interest fund amounted to €547 million and €460 million, respectively, of which €186 million and €151 million were recognized in the income statement as of December 31, 2016 and 2015. Furthermore this change in the method of estimating the recoverability of late payment interest will result in a one-off increase in net profits and own funds equal to a net amount of €18 million.

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

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

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

Our financial position and results of operations may differ materially from the Unaudited Pro-Forma Financial Information included in this Offering Circular.

This Offering Circular includes the Group's Unaudited Pro-Forma Financial Information. The Unaudited Pro-Forma Financial Information have been prepared in connection with the Magellan acquisition, in order to present the main estimated effects on our consolidated income statement for the year ended December 31, 2016 of the Magellan Acquisition.

The details contained in the Unaudited Pro-Forma Financial Information represent a simulation prepared solely to illustrate the effects that the Magellan Acquisition may have had if it had taken place on January 1, 2016 with regards to income statement effects. In particular, given that the Unaudited Pro-Forma Financial Information have been based on available information and prepared to retrospectively reflect the effects of subsequent transactions, despite complying with generally accepted regulations and using reasonable assumptions, there are limits associated with the nature of the Unaudited Pro-Forma Financial Information. Therefore, the Unaudited Pro-Forma Financial Information do not reflect our actual financial situation/results of operations and they do not purport to represent what our actual results of operations would have been if these transactions had actually occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or financial condition. Had the Magellan Acquisition actually occurred on the date assumed above, the effects would not necessarily have been the same as those presented in the Unaudited Pro-Forma Financial Information.

The Unaudited Pro-Forma Financial Information are not in any way intended to be a forecast of our future results and therefore should not be construed in this sense. Therefore, investors should not rely on the Unaudited Pro-Forma Financial Information in making their investment decision.

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

Our business (including the Traditional Activities and activities carried out by Magellan, excluding Credit Collection Management only) relies heavily on our access to funding resources consistent with the quality and cost criteria established by our business plan. As of December 31, 2016, our Group (excluding Magellan) had outstanding *indebtedness* of €2,113 million, of which bank and third-party loans of €822 million related to online deposits, utilized loans and credit limits including overdraft facilities in the total amount of €756 million, securitizations of €85 million and bonds of €450 million.

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

Risks related to our Notes.

On June 12, 2014, we issued €300 million in aggregate principal amount of 2.75% Notes due 2017 (the "**2017 Notes**"), on June 21, 2016, we issued €150 million in aggregate principal amount of 1.25% Notes due 2021 (the "**2021 Notes**") and on March 2, 2017, we issued €100.0 million in aggregate principal amount of 5.875% fixed rate reset callable subordinated Tier 2 Notes due 2027 (the "**2027 Notes**").

The terms and conditions of the 2017 Notes, the 2021 Notes and the 2027 Notes (collectively, the "**Terms and Conditions of the Existing Notes**"), which are governed by English law, impose certain obligations on us (including negative pledges in respect of us and our "Material Subsidiaries", as defined therein) and, in accordance with market practice for similar transactions, provide for events of default. Such events of default include, *inter alia*: (i) the cross-default of us or any of our subsidiaries (as defined under Article 2359 of the Civil Code) involving amounts above a certain threshold; (ii) judgments or orders for the payment of any amount above a certain threshold; and (iii) cessation of business by us or any of its subsidiaries otherwise than for the purposes of a "Permitted Reorganization".

As of the date of this Offering Circular, Magellan has issued bonds under a PLN 750 million (approximately €170 million) bond program arranged and placed by mBank S.A., of which PLN 292.0 million and €29.1 million (approximately €95.3 million in total) outstanding as of December 31, 2016. The terms and conditions of the bonds are governed by Polish law and, in accordance with market practice for similar transactions, provide for events of default. Such events of default include, *inter alia*: (i) a cross-default in respect of financial indebtedness for an amount exceeding a certain threshold if the interest and principal in respect of such indebtedness is not paid when due or is declared due and payable before the original maturity date, (ii) delivery of judgments or orders for the payment of any amount above a certain threshold, (iii) cessation of business, and (iv) change of control over Magellan. In connection with a waiver process completed during October 2016, the noteholders of the bonds issued by Magellan requested that the bonds be listed on the alternative trading system ("*Catalyst*") operated by the Warsaw Stock Exchange, within a period of time ranging from March 2, 2017 to March 7, 2017. As of the date of this Offering Circular, Magellan has obtained the listing of the bonds. See "*Business—Funding—Magellan Bond Programs*".

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

Risks related to our Loan Agreements.

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

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

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

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

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

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

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

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

We may face ongoing liability under our securitization.

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

The table below summarizes the main information regarding the securitization operations with a member of the Deutsche Bank Group as of December 31, 2016, 2015, and 2014.

Bank	Vehicle	Start date	Maturity	Revolving period(*)	Nominal Outstanding at December 31		
					2016	2015	2014
	(in € millions)				(in € millions)		
Deutsche Bank Group	Farmafactoring SPV I S.r.l.	October 2012(a)	July 2017	10 months	140.3	250.5	227.0

(*) Revolving period from last renegotiation.

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

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

The methods, evaluations and estimates we employ to measure our assets and liabilities may be incorrect.

We make evaluations and estimates to determine the value of several of the most significant items in our financial statements, which cannot be easily derived from other sources, including our assets, liabilities, costs and revenues, and information relating to our contingent assets and liabilities. These estimates and evaluations are carried out in accordance with IFRS principles and are based on past experience and other relevant factors. For further information, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical accounting policies—Use of estimates and assumptions in the preparation of the financial statements*".

However, there may be mistakes in the calculation of certain estimates and values, including: (i) receivables and other financial assets and liabilities; (ii) severance pay and other benefits due to employees and other personnel; (iii) provisions for risks and charges and contingent assets; (iv) goodwill and other intangible assets; (v) deferred tax assets; (vi) tax liabilities; (vii) equity investments; and (viii) outstanding securities. The valuation of each of these items is affected by, *inter alia*, macroeconomic events and the performance of the financial markets, which may have an impact on interest rates, inflation, actuarial assumptions and, more generally, the credit worthiness of counterparties, as well as existing and potential litigation. For further information, see "*Selected Financial Information—Economic, operating and financial indicators*".

In general, the value of loans from customers are the most affected by estimates, as the processes used for estimating collection flows are particularly complex and affected by the uncertainty in the current macroeconomic and market environment. These estimation processes include, among other things, estimates on the recovery and collection times of default interest accrued on factoring receivables purchased on a non-recourse basis, based on the analysis of historic company data.

The parameters and information used for the estimation and evaluation processes are therefore significantly affected by unforeseeable factors or otherwise outside of our control, which could have an immediate effect on our business. Any such fluctuation or change in value, or any error on our part in valuing such assets and liabilities, could have a material adverse effect on our business, results of operations and financial condition.

We hold several securities which may be adversely impacted by macroeconomic factors.

As of December 31, 2016, the face value of securities in portfolio amounted to €1,971.5 million, of which: (i) €375 million is classified in the Available-for-Sale; and (ii) €1,596.5 million is classified in the Held-to-Maturity. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Our Results of Operation—Italian Financial Crisis*". The securities held in the available-for-sale portfolio are at variable rates with maturity dates within five years, whereas those held in the held-to-maturity portfolio are at fixed rates (BOT, BTP and CTZ) with maturity dates related to the sources of committed and unsecured funding held by the Bank according to company policy. In addition, we have used Italian government bonds as collateral in refinancing operations with the ECB (which are fully allotted until December 31, 2017), and repo transactions with *Cassa Compensazione e Garanzia* through the MTS platform. See "*Risk Management—Counterparty and Credit risk*".

As of December 31, 2016 the government securities portfolio was refinanced for a nominal value of €0 million through ECB auctions and €1,771 million with repos. The nominal value of securities available as of December 31, 2016 is €201 million (of which €20 million in intraday credit with the Central Bank). See "*Business—Funding—Government bonds and repos*".

Adverse macroeconomic factors, such as a worsening of the fiscal conditions of the Republic of Italy, a credit rating downgrade or a deterioration of the Italian economy, could affect the value of the security, which, in turn, could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

We have significant related party transactions with our affiliates.

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

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

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

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

Risks Related to Our Industry

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

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

We do not expect the governments of countries in which we operate (Italy, Spain, Portugal, Poland and, to a lesser extent, Slovakia and Czech Republic) to adopt measures capable of eliminating entirely the structural inefficiencies in the public sector of their respective countries. However, we cannot rule out the possibility that such measures could be successfully adopted in the future or that the public sector (the national healthcare system and public administration in particular) of the countries in which we operate could obtain sufficient funds and implement adequate procedures to materially reduce delays in payments to suppliers. Furthermore, the implementation of such measures may also be accelerated as a consequence of the initiatives that the European Commission has commenced towards those member States that have traditionally longer delays in the payment process. In particular, the European Commission has warned Italy, Spain, Greece and Slovakia with respect to this specific matter and it cannot be excluded that an infringement procedure may commence if those member States do not adopt specific measures to improve the payment terms. It should be noted that the infringement procedure launched by the European Commission with regards to delayed payment processes in Portugal's public sector has been closed without any sanctions, after the State aligned their legislation with the relevant EU directives.

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

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

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

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

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

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

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

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

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

The Split Payment Mechanism was authorized by the Council of the European Union effective from January 1, 2015 and will be applicable until December 31, 2017. By that date, adequate controls should have been developed based on the data acquired through electronic invoicing. We cannot exclude that application of the Split Payment Mechanism will be extended by the Council of the European Union for a further period after December 31, 2017. In this respect, the Italian government through the Ministry of Finance has recently applied for the extension of said measure to 2020. In connection with this request, the Ministry also requested that the European Commission verify whether it is possible to extend the application of the Split Payment Mechanism to operations and entities not previously included in this regime (which was previously restricted to purchases made by public administrations). Any extension of the application of Split Payment Mechanism could have a material adverse effect on our business, results of operations and financial condition.

Compared to the financial year of 2014, the introduction of the Split Payment Mechanism in 2015 caused a reduction of our purchase volumes concerning receivables due from the Italian public administration and national healthcare system by approximately 15% (the average VAT rate of the portfolios transferred by the assignors) as the amount of the purchased receivable is net of VAT. If we were to disregard the effects of the Split Payment Mechanism and consider an average VAT rate of 15%, there would be an increase of approximately 32% of the volumes of receivables purchased by us in Italy in 2015, on a like-for-like basis, compared to 2014.

See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors affecting our business—Split Payment Mechanism"* and "*Supervision and Regulation—Italy—Split payment for VAT related to transactions with public entities"*.

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

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

Since 2012, we have benefited from a favorable tax regime introduced by Decree Law No. 201 of December 6, 2011, converted into law, following amendments, by Law No. 214 of December 22, 2011 (the so-called "*Aiuto alla crescita economica*" ("**ACE**")), which introduced a tax reduction for highly capitalized businesses. In particular, the favorable tax regime is based on the deduction of an amount corresponding to the notional return on its new capital from the total net income declared. For the first three tax periods following the application of the ACE, this notional return was fixed at 3%. For the years ended December 31, 2014, 2015 and 2016 the rate was fixed at 4%, 4.5% and 4.75%, respectively.

Although this regime has resulted, and for the 2016 tax year will also result, in a significant tax saving for us, on the basis of a Decree of the Ministry of Economics and Finance, there has been a decrease in the percentage rate for the tax period starting from January 1, 2017 at 2.3% (and 2.7% from January 1, 2018 and for the following fiscal years), which could increase our tax rate and therefore have an adverse effect on our business, results of operations and financial condition.

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

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

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

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

Following the conclusion of the annual SREP process, on March 10, 2017, we received a Bank of Italy communication by which they highlighted certain areas of improvement concerning, *inter alia*, the concentration of our business in the Italian healthcare sector and the need to continue expansion into other markets to widen our strategic position, reducing the impact of large exposures.

Pursuant to the rules imposing limits on the assumption of risk by banks, which are set out in the "**Supervisory Provisions for Banks**" (*Disposizioni di Vigilanza per le Banche*) issued by the Bank of Italy (Circular No. 285 of December 17, 2013, as subsequently amended), banks are required to limit their exposure, with respect to any individual debtor, to 25% of their own funds. Failure to comply with this requirement following the occurrence of events out of our control (for example, future mergers between our debtors) and any risk connected with the consolidation of local healthcare authorities that has been taking place in certain regions of Italy in recent years and will occur in other regions as well in the near future could have a material adverse effect on our business, results of operations and financial condition.

Furthermore, compliance with the 25% exposure limits with respect to individual debtors described above could restrict our growth in terms of asset volumes and could cause a potential breakdown of our relationship with customers if, for example, in order to comply with such limits, we were forced to turn down business from one or more customers, which could have a material adverse effect on our business, results of operations and financial condition.

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

Interest from our non-recourse factoring business and in general from the Group's financing activity, depends on our ability to correctly identify and assess the fixed commission earned to customers for the purchase of receivables based on expected payment time, taking into account our expected funding cost over that period. A fluctuation in interest rates may cause our costs estimates (which are priced in a fixed commission at the time of purchase of the receivable) to no longer be sufficient to cover the funding costs of our non-recourse factoring business or reduce our expected margins. We have developed procedures to allow us to make assessments concerning the purchase of receivables. However, no assurance can be given that such assessments will accurately reflect the potential variation of interest rates.

Default interest is limited to the ECB refinancing rate and an increase in the ECB rate will therefore increase the rate payable on late payment of interest.

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

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

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

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

The capital absorption relating to interest rate risk as of December 31, 2016, 2015, and 2014, calculated on the basis of an estimate of the market shock, was equal to €9,259 thousand, €15,125 thousand, and €8,903 thousand, respectively. The capital absorption relating to market risk as of December 31, 2016 and 2015 was equal to €0 thousand and €0 thousand, whereas as of December 31, 2014 it was equal to €94 thousand.

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

The main funding sources of the Magellan Group consist of bonds, bank loans and funding from the Company. The funding sources (excluding short-term discount bonds and medium-term euro-denominated bonds) are on floating rate with reference to the Polish market rate ("**WIBOR**"). The Magellan Group's assets pay interest based on fixed and floating rates. Therefore, there is a risk of a mismatch. As part of the policies of our Group, also the Magellan Group manages the risk through monitoring of the structure of the portfolio including financial assets and financial liabilities, as well as using interest rate swaps (IRS) instruments.

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

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

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

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

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

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

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

In the event that we are unable to respond to increasing competitive pressure by, *inter alia*, offering innovative products and services capable of satisfying the demands of customers, we could lose market share in several business sectors and, therefore, related masses and revenues. For example, in last three years, we have recorded a decrease in commission income from our Credit Collection Management services following the increased competition on the market. As of December 31, 2016, we recorded a decrease in commission income of 6.6% compared to December 31, 2015. As a result of such competitive pressures, we may not be able to maintain or increase our level of activity and profitability in line with past results, which could have a material adverse effect on our business, results of operations and financial condition.

Risks Related to the Offer Shares and the Offering

The implementation of the BRRD, and in particular its bail-in provisions, could significantly impact our shareholders by shifting losses to them.

The subscription of the Shares entails the typical risks of investments in equity instruments, including the risk of loss, in whole or in part, of the capital invested in the Shares should we enter into liquidation or encounter financial difficulties or distress entailing the application of resolution measures under the regulatory framework introduced through the BRRD. This regulatory framework is intended to ensure that, in case of any winding-up of a bank, shareholders bear the losses first, and that creditors (other than protected creditors, such as those holding deposits covered under a deposit guarantee scheme) bear them after the shareholders, providing that no one bears losses greater than what they would have borne if the bank had been liquidated following the normal process (in Italy, compulsory liquidation), according to the "no creditor worse off" principle. Public financial support in favor of banks under resolutions is allowed only if the resolution tools under the BRRD have been used and the relevant conditions are met, including, in particular, compliance with the EU rules on state aids. The granting of aid, where the requirements are met, may be subject to a prior "burden sharing" by shareholders and those who have subscribed subordinated debt or hybrid capital instruments, resulting in the limitation of their rights to the maximum possible extent under the law. In particular, state aid should not be granted before capital, hybrid instruments and subordinated bonds have been fully utilized to compensate for any losses incurred by the bank.

Except for certain limited exceptions, the BRRD has been implemented in Italy. The BRRD is complemented by the SRM Regulation establishing a "**Single Resolution Mechanism**" or "**SRM**" within the Banking Union. The SRM comprises the Single Resolution Board and national resolution authorities-both operating as "resolution authorities" (as defined therein).

As a consequence of the bail-in, investors may be exposed to the risk that the value of their Shares is written-off, in whole or in part, even in the absence of a liquidation proceeding related to us. For more information concerning the BRRD and SRM framework, see "*Supervision and Regulation—Italy—Banking Union-Bank Recovery and Resolution Directive and Single Resolution Mechanism under the SRM Regulation*".

Under the BRRD and the SRM Regulation Relevant Authorities are also entrusted with certain additional powers which may interfere with the rights of shareholders and creditors-such as the power to transfer all or part of the assets, liabilities and relationships to a third party purchaser, a special purpose entity (so-called "bad bank") or a bridge bank, the power to modify the maturity and interest rates of our liabilities or suspend certain payments or the enforcement of guarantees or to remove directors and managers. In particular, among other things, investors should consider that: (i) the Relevant Authorities may transfer all or part of our shares or assets to a private purchaser without the consent of the shareholders and this could affect the property rights of the latter; (ii) in applying the resolution instruments, the rights of shareholders against us may be voided or substantially reduced; and (iii) the shareholders themselves may suffer strong dilution in their equity investment if liabilities are converted into shares at conversion rates particularly unfavorable to them. As a consequence of such risks, the introduction of the bail-in mechanism may increase the costs borne by us in relation to the collection of funds from the public.

In addition, the Relevant Authorities have the power to: (i) determine the minimum requirement for own funds and minimum required eligible liabilities ("**MREL**") that we are obliged to comply with; and (ii) demand that we issue financial instruments in order to ensure compliance with the MREL. In such case, we could be forced to adopt further measures to strengthen our capital and, consequently, the shareholders may be called upon to participate in further capital increases. As of the date of this Offering Circular, the MREL has not been adopted yet. The establishment of a harmonized framework for the recovery and resolution of crises is still subject to the ability, on the part of the Bank of Italy, to make use of the traditional tools of extraordinary administration and compulsory liquidation. The SRM is responsible for the centralized management of banking crisis and carries out the tasks to identify, ex ante, the ways in which a crisis can be addressed and deciding, when the crises arises, how to manage it in detail through adopting a resolution plan. See "*Supervision and Regulation—Italy—Banking Union-Bank Recovery and Resolution Directive and Single Resolution Mechanism under the SRM Regulation*".

The BRRD and SRM Regulation also regulate the use of resolution funds in connection with the adoption of resolution measures. Member States are required to set up National Resolution Funds, to be funded through ordinary and extraordinary contributions by banks. National Resolution Funds will be replaced by a Single Resolution Fund at the EU level.

The entry into force of the SRM, as well as the ordinary and extraordinary contributions provided for by the relevant provisions of the Italian framework for the transposition of the BRRD (i.e. Legislative Decree No. 180 of November 16, 2015 and Legislative Decree No. 181 of November 16, 2015) have a material adverse effect on the economic and capital position of the Group given that they impose an obligation on us to create specific funds with financial resources that have to be provided by means of contributions from credit institutions. In this respect, for the year ended December 31, 2016, we have recorded charges for ordinary contributions to the National Resolution Fund amounting to €1.1 million (which was subsequently transferred to the Single Resolution Fund) and to the Interbank Deposit Guarantee Fund amounting to €0.5 million. In addition, we have been required to make extraordinary contributions to the Single Resolution Fund in 2016 and 2015, following the financial distress of four Italian financial institutions (*i.e.* Banca Popolare dell'Etruria e del Lazio S.C, Cassa di Risparmio della Provincia di Chieti S.p.A., Banca delle Marche S.p.A. and Cassa di Risparmio di Ferrara S.p.A.) respectively equal to €2,179 thousand and €1,101 thousand. The extraordinary contributions were paid and recorded by us in 2015 and in 2016. As of the date of this Offering Circular, we have not been required to make any further extraordinary contributions. The exercise of any power under the BRRD against us, especially the bail-in tool, or any suggestion of such exercise could have a material adverse effect on our business, results of operation, or financial condition.

We are controlled by the Selling Shareholder, whose interests may not be aligned with our interests or those of the holders of our ordinary shares.

Currently, the Selling Shareholder holds 94.2% of our ordinary shares, and it will continue to hold approximately 63.0% of our ordinary shares after the Offering if the Over-Allotment Option is not exercised, or approximately 58.4% if the Over-Allotment Option is exercised in full. Thus, after the completion of the Offering, the Selling Shareholder will continue to be able to control all matters requiring shareholder approval, including approving significant transactions, authorizing payments of dividends to the extent permissible under applicable rules and restricting the pre-emption rights of shareholders.

The interests of the Selling Shareholder may differ from those of our other shareholders, and the Selling Shareholder may prevent us from making certain decisions or taking certain actions that would protect the interests of our other shareholders. This may also have the effect of delaying, deferring or preventing a change in control or distribution of dividends and discourage bids for our ordinary shares, which could deprive our shareholders of an opportunity to receive a premium for their ordinary shares as part of a future sale of the business and may adversely affect the value of our ordinary shares.

Members of our management, including the Chief Executive Director and Senior Managers, are Shareholders, which may create a risk of conflicts of interest.

On October 21, 2016 an agreement aimed at regulating, in case of Company's listing, the exit of the Managers (including the Chief Executive Director and the Senior Managers) from BFF Luxembourg equity and their acquisition of a (direct) participation in the Company was executed (s.c. Exit Agreement).

In particular, pursuant to the Exit Agreement, with reference to potential conflicts of interest, in case of Listing of Company's Shares, the Managers shall assign all their interests held in BFF Luxembourg in favor of BFF Canada in consideration for a certain cash amount and a certain number of Company's Shares, both to be calculated on the basis certain mechanisms set out in the Exit Agreement to be implemented upon listing.

The Exit Agreement is further described in "*Principal and Selling Shareholder—Investment agreement between the Selling Shareholder, BFF Canada and the Managers*".

In this event, each Manager will commit to assume a lock-up obligation on its Company's Shares, in accordance with the terms required by the entity that will fulfill the role of global coordinator and in any case for a period that does not exceed 12 months.

Management who are also Shareholders may be influenced by their dual capacities in ways which cause conflicts of interest in their behavior, which could have a material adverse effect on our business, results of operations and financial condition.

An active and liquid trading market for our shares may not develop; the market price of our shares may be volatile, and investors may not be able to resell their shares for a price equal to or greater than the offering price.

Prior to the Offering, there has been no public market for our shares. Following the Offering, our shares will be traded on the MTA. There can be no assurance that an active and liquid public trading market for our shares will be established or maintained. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. The actual market price of our shares may fluctuate in relation to several factors (including those described in these risk factors) and it may not reflect our actual operating performance. Said price may also turn out to be lower than the initial price you paid to purchase Offer Shares.

The price of our shares may decline as lock-up agreements expire.

The price of our shares may decline suddenly if there is a significant increase in the number of shares offered for sale. Such an increase could occur upon the expiry of the lock-up agreements to which we and the Selling Shareholder, along with certain of our managers and minority shareholders, have entered into in connection with the Offering. See "*Plan of Distribution—Lock-Up Agreements*". Under these agreements, the Selling Shareholder has agreed to lock-up commitments which prevent it from, *inter alia,* issuing, offering, selling, contracting to sell, pledging, loaning, granting any option to purchase, making any short sale or otherwise disposing of our shares for a period of 360 days from the Trading Date without the prior written consent of the Joint Global Coordinators (which shall not be unreasonably withheld), subject to certain exceptions. In addition, we have agreed to these lock-up commitments for a period of 180 days from the Trading Date. Furthermore, certain managers of the Company have agreed to a lock-up undertaking for a period of 360 days from the Trading Date and certain minority shareholders of the Company have also agreed to a lock-up undertaking for a period of 180 days from the Trading Date. Upon the expiry of the relevant lock-up period, the Selling Shareholders will be free to sell any or all of their shares and we will be able to issue new shares. Significant sales of shares by us or any of our shareholders, or the perception that these sales may occur, may have an adverse effect on the price of the shares and may prejudice our ability to raise capital through issuances of shares, or other means, in the future.

We may not be able to continue to distribute dividends as we have in previous years.

Our Board of Directors, as of the date of this Offering Circular, has adopted a dividend distribution policy, in compliance with the 2017 risk appetite framework, which provides an obligation to propose at the meeting of the shareholders for the distribution of dividends up to 100% of the Group's consolidated yearly net income and for the amount exceeding the 15% Total Capital Ratio target of the consolidation perimeter of the Banking Group. For further information on the risk appetite framework for 2016, see "*Dividends and dividend policy—Dividend policy". There is therefore no certainty that at the close of each fiscal year, we will be able to distribute our net profit and that the Board of Directors will propose the distribution of dividends to the Shareholders' Meeting and that the Shareholders' Meeting will approve to proceed with the distribution of dividends to the maximum extent possible under the applicable legal framework, our By-laws or our dividend distribution policy.

Based on our financial results for the past three years, our shareholders resolved to distribute: (i) in connection with the approval of our 2016 financial statements, €72.1 million in dividends, claimable from March 15, 2017, (ii) in connection with the approval of our 2015 financial statements, €68.8 million in dividends, claimable from April 7, 2016, and (iii) in connection with the approval of our 2014 financial statements, €48.4 million in dividends, claimable from April 1, 2015.

On November 11, 2015, the Board of Directors and the Board of Statutory Auditors were made aware of a ECB recommendation to establish an adequate dividend distribution policy in order to comply with a certain Total Capital Ratio level, with reference to the consolidation perimeter for the purposes of the CRR. This level is in line with the 15% Total Capital Ratio target autonomously established by the Group with reference to the consolidation perimeter of the Banking Group. However, the provision of said target does not necessary imply that any excess dividends shall always be distributed to shareholders, as our distribution of dividends in future years will depend on our results, general business performance, management's development plans and applicable regulatory capital requirements. As our distribution of dividends is influenced by our growth and profitability rates, we cannot exclude that in the forthcoming financial years, due to certain factors out of our control, we will not be able to maintain the appropriate growth and profitability rates to ensure that we will generate sufficient distributable profits.

The Selling Shareholder, which will continue to control us after the Offering, could, in the future, decide not to vote in favor of any distribution of dividends to shareholders or to make distributions at different levels than have been made in the past.

Furthermore, the Bank of Italy has recommended that all banks adopt dividend distribution policies that allow them the maintain current and prospective capital adequacy conditions, individual and consolidated, which are consistent with the overall risks undertaken and suitable to promote alignment with the prudential requirements laid down in the CRD IV and the CRR, and to guarantee the coverage of internal capital levels calculated under the scope of the ICAAP process. These requirements could therefore restrict our ability to distribute dividends. This, and the other above-mentioned factors, could have an adverse effect on any return on investment in our shares.

Our relationships with the Joint Global Coordinators may present conflicts of interest.

The Joint Global Coordinators are Deutsche Bank AG, London Branch, Mediobanca-Banca di Credito Finanziario S.p.A., and Morgan Stanley & Co. International plc, all of which will receive fees in connection with the Offering. In the ordinary course of the Joint Global Coordinators' and certain of their affiliates' respective businesses, the Joint Global Coordinators and their affiliates may, alongside BNP Paribas, Jefferies International Limited and UniCredit Corporate & Investment Banking, as Joint Bookrunners, or Banca Akros S.p.A., as Co-lead Manager, from time to time, engage in sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services (us, the Selling Shareholder or their affiliates for which they have been or may be paid customary fees.

We are incorporated in Italy and, as a result, it may not be possible for shareholders to enforce civil liability provisions of the securities laws of the United States against us or our officers and directors.

We are incorporated under the laws of Italy and the majority of our assets and all of our directors and officers are located outside of the United States. As a result, it may not be possible for the holders of our shares to effect service of process upon our directors or officers within the United States or to enforce against us or our directors or officers in the United States court judgments based on the civil liability provisions of the securities laws of the United States. This could cause a loss of all or part of any investment in the Offer Shares.

Investors from countries that do not use the Euro as their currency face an additional risk due to changes in currency exchange rates.

Our shares are and will be denominated in Euro and any future payment of dividends on our shares will be made only in Euro. The Euro has fluctuated recently with respect to principal world currencies, including the U.S. Dollar. The amount you will receive in U.S. Dollars or any other currency as a result of payment of dividends or the sale of our shares could be adversely affected by variations in the rate of exchange which could cause a loss of all or part of your investment in the Offer Shares.

Our shares will not be freely transferable in the United States.

Any Shares offered and sold to investors located in the United States will be "restricted securities" (as defined in Rule 144 under the Securities Act) and such shares may not be reoffered, resold, pledged or otherwise transferred, except: (i) outside the United States in accordance with Rule 903 or Rule 904 under Regulation S; (ii) to a QIB in a transaction that is exempt from registration under the Securities Act and that meets the requirements of Rule 144A; (iii) pursuant to an effective registration statement under the Securities Act; (iv) in accordance with Rule 144 under the Securities Act; or (v) in another transaction not requiring registration under the Securities Act; and, in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Each prospective investor should consult its own counsel, business advisor, accountant, tax advisor and other advisors for legal, financial, business, tax and related advice regarding an investment in the Offer Shares.

U.S. Foreign Account Tax Compliance Act withholding may affect payments on the Shares.

Sections 1471 through 1474 of the U.S. Internal Revenue Code (such provisions commonly known as "**FATCA**") impose a reporting regime and potentially a 30% withholding tax with respect to certain payments to any non-U.S. financial institution (a "**foreign financial institution**", or "**FFI**" (as defined by FATCA)) that (i) does not become a "**Participating FFI**" by entering into an agreement with the U.S. Treasury Department to provide certain information in respect of its account holders and (ii) is not otherwise exempt from or deemed in compliance with FATCA. This withholding regime generally applies to payments received from sources within the United States and will apply to "**foreign passthru payments**" (a term not yet defined) no earlier than 2019.

The United States and a number of potential partner countries have entered into intergovernmental agreements to facilitate the implementation of FATCA (each, an "**IGA**"), and the United States is in negotiations with several other countries to enter into an IGA. Italy and the United States have entered into a Model 1 IGA, the most widely used IGA, as of January 10, 2014. Pursuant to FATCA and the Model 1 IGA, an FFI in an IGA signatory country may be treated as a "**Reporting FI**" not subject to FATCA withholding on any payments it receives. Such a Reporting FI also would not be required to withhold under FATCA or an IGA (or any law implementing or complying with, or introduced in order to conform to an IGA) (any withholding under any of the foregoing, ("**FATCA Withholding**")) from payments it makes, but the model IGA leaves open the possibility that such a Reporting FI might in the future be required to withhold on foreign passthru payments that it makes. A Reporting FI would be required to report certain information in respect of its account holders to its home government.

If an amount in respect of FATCA Withholding were to be deducted or withheld on any payments made by us, neither we nor any other person will pay additional amounts as a result of the deduction or withholding of such tax. If any FATCA Withholding is imposed on payments made with respect to the Offer Shares, a beneficial owner of any such Offer Shares that is not a foreign financial institution generally will be entitled to a refund of any amounts withheld and may claim such refund by filing a U.S. federal income tax return, which may entail significant administrative burden. A beneficial owner of any such Offer Shares that is a foreign financial institution will be able to obtain a refund only to the extent that an applicable income tax treaty with the United States entitles it to an exemption from, or reduced rate of, tax on the payment that was subject to FATCA Withholding.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and the model IGA, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisors regarding the application of FATCA to us and to payments they may receive in connection with the Offer Shares.

We may be classified as a passive foreign investment company ("PFIC"), which could result in adverse U.S. federal income tax consequences to U.S. Holders of the Offer Shares.

We may be classified as a PFIC for U.S. federal income tax purposes for our taxable year ending on December 31, 2017 and in future taxable years. If we are or become classified as a PFIC it could have materially adverse consequences from a U.S. federal income tax perspective for U.S. investors in our shares. For further information on PFIC, see "*Taxation of Ordinary Shares—United States Federal Income Tax Considerations—Passive foreign investment company*".

The price of the Offer Shares may be higher than the open market price due to stabilization activities.

In connection with the Offering, Mediobanca-Banca di Credito Finanziario S.p.A. may engage in activities that stabilize, maintain or otherwise affect the price of the Offer Shares, including: stabilizing transactions, short sales and purchases to cover positions created by short sales for not later than 30 days after commencement of trading of the Offer Shares. As a result of these activities, the price of the Offer Shares may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by Mediobanca-Banca di Credito Finanziario S.p.A. at any time without notice.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of the Offer Shares offered by the Selling Shareholder, including any Over-allotment Shares sold by it pursuant to the exercise of the Over-allotment Option. The Selling Shareholder will receive the net proceeds from the sale of the Offer Shares, after deducting estimated commissions.

We will bear the expenses connected to the listing of the shares on the MTA (excluding the commission owed to the Joint Global Coordinators), which are expected to be approximately €2.5 million.

DIVIDENDS AND DIVIDEND POLICY

This summary contains all the information that we consider to be material regarding dividends, if any, payable by us, but does not purport to be complete and is qualified in its entirety by reference to our by-laws or to Italian laws and regulations, as the case may be.

General

In accordance with Italian law, we may proceed with the payment of annual dividends out of our distributable profits and reserves on an unconsolidated basis for each relevant year pursuant to a resolution of the Board. Any such resolution is subject to approval by our shareholders at an annual shareholders' meeting, which must be convened for the approval of our annual financial statements within 120 or 180 days after the end of the relative financial year. See "*Description of Share Capital—Shareholders' Meetings—Ordinary Shareholders' Meetings*" and "*Description of Share Capital—Dividend Rights*".

In accordance with Italian law and our by laws, the Board may authorize the distribution of interim dividends, subject to certain limitations. Said interim dividends shall be paid at the end of the financial year and in the manner defined by the shareholders' meeting convened to approve the financial statements. See "*Description of Share Capital—Dividend Rights*".

Mandatory Reserves

In accordance with Article 22 of our By-laws, before dividends may be paid out of our unconsolidated net income in any year, an amount equal to 5% of such net income must be allocated to a statutory reserve fund (*riserva legale*) until such reserve is equal to, at least, one-fifth of the par value of our issued share capital. The remaining amount of net income shall represent a source of cash flows, which may be distributed to shareholders upon a shareholders' meeting resolution (adopted in light of a Board of Directors proposal in such regard), marked for extraordinary reserves (or for other another purpose) or carried over to the following financial years.

As of December 31, 2016, our legal reserve reached the limit provided by law of one-fifth of the par value of our issued share capital and, therefore, no further allocations to the statutory reserve fund are required by law. If our share capital is reduced as a result of accumulated losses, dividends may not be paid until the capital is restored or reduced by the amount of such losses.

Repayment and Prescription

The annual dividends we declare are paid in compliance with applicable laws. Shareholders will not be required to pay back us annual dividends distributed on the basis of duly approved financial statements, if the shareholders collected such dividends in good faith. Dividends not collected within five years from the date on which they became payable will be forfeited in our favor and will be added to our reserves.

Manner and Time of Payment

Any dividends we declare are paid to shareholders through Monte Titoli or other authorized centralized securities custody and administration systems with which the intermediaries instructed by the shareholders have deposited their shares, in accordance with the Consolidated Financial Act and the Joint Regulation.

Taxation

Generally, save for certain exclusions and exceptions provided by law, all dividends payable on our ordinary shares to individuals or entities not resident or not established on a permanent basis in Italy will be subject to Italian withholding tax of 26.0%, which may however be reduced under applicable tax treaties or conventions. For information on the taxation of dividends payable to non residents of Italy, see "*Taxation of Ordinary Shares—Italian Tax Considerations*". Italian regulations do not contain any specific restrictions on the payment of dividends to non residents of Italy.

However, pursuant to applicable Italian law, in connection with the payment of dividends, Italian companies such as ours are required to supply to the Italian tax authorities certain information. See "*Taxation of Ordinary Shares—Italian Tax Considerations—Tax regime for dividends*".

For further information concerning U.S. taxation, see "*Taxation of Ordinary Shares—United States Federal Income Tax Considerations*".

Dividend Policy

The Board of Directors of the Company adopted a dividend distribution policy in November 2015, which was subsequently modified and updated over time in accordance with the provisions set forth in the risk appetite framework 2016, which provides for a proposal at the meeting of the shareholders to proceed with a distribution of dividends of up to 100% of the Group's consolidated net income in an amount exceeding the 15% Total Capital Ratio target of the consolidation perimeter of the Banking Group. Any decision regarding the distribution of dividends must be approved by a meeting of the shareholders.

On January 22, 2016, the Board approved the risk appetite framework for 2016 which only allows for a distribution of dividends where the Total Capital Ratio of the consolidation perimeter of the Banking Group is not less than 15%. In such regard, we point out that BFF Luxembourg, as the head of the supervisory consolidation perimeter, has undertaken to maintain a dividend distribution policy capable of continuously preserving a Total Capital Ratio of at least 15%, at both a Group and at the consolidation perimeter for the purposes of the CRR level, in accordance with the aforementioned Board decision. With the exception of the foregoing, no limitations with regard to the distribution of dividends are provided under loan agreements or under the Investment Agreement (for a description of which, see "*Principal and Selling Shareholder—Investment agreement between the Selling Shareholder, BFF Canada and the Managers*").

Based on our financial results for the past three years, the shareholders' meeting of the Company, following the Board of Directors' proposal, resolved to distribute: (i) in connection with the approval of our 2016 financial statements, €72.1 million in dividends, paid on March 15, 2017, (ii) in connection with the approval of our 2015 financial statements, €68.8 million in dividends, paid on April 1, 2016, and (iii) in connection with the approval of our 2014 financial statements, €48.4 million in dividends, paid on April 7, 2015. See "*Risk Factors—Risks Related to the Offer Shares and the Offering—We may not be able to continue to distribute dividends as we have in previous years*".

In relation to data registered as of December 31, 2016 and taking into account the new minimum capital ratios which were communicated to us by the Bank of Italy on March 10, 2017, the Offering (assuming a full exercise of the Over-allotment Option), in addition to our dividend distribution policy which ensures the maintenance of the 15% Total Capital Ratio target autonomously established by the Group at the Banking Group level, would have the following effect: (i) a CET 1 Ratio equal to 14.0%; (ii) a Tier 1 Ratio equal to 14.5%; and (iii) a Total Capital Ratio equal to 15.1%. Furthermore, with reference to the Banking Group, the capital ratios are not affected in any way by the Offering. This effect does not take into account the issuance of the 2027 Notes and the increase in the percentage of the estimated amount of late payment interest to be collected from 40% to 45%.

CAPITALIZATION AND REGULATORY CAPITAL

The following table sets forth our capitalization as of December 31, 2016, on an actual basis and as adjusted to give effect to the our receipt of the estimated proceeds from the sale of newly issued Offer Shares before deducting underwriting and other commissions and estimated offering expenses payable by us. We will not receive any proceeds from the sale of Offer Shares by the Selling Shareholder.

You should read this table in conjunction with "*Use of Proceeds*", "*Management's Discussion and Analysis of Financial Condition and Results of Operation*s" and our Financial Statements and the other financial information included elsewhere in this Offering Circular.

	As of December 31, 2016
	(in € thousands)
Funding sources	
Bilateral loans	634,807
Due to banks	**634,807**
Securitization transactions	85,000
Bond issues	545,334
Securities issued	**630,334**
Repo transactions	1,809,044
Online term deposit accounts	822,438
Other financing	288,653
Total	**4,185,276**
Share capital	130,983
Reserves	126,132
Valuation reserves	4,495
Profit for the year	72,137
Net equity	**333,747**
Total capitalization	**4,519,023**

As of the date of this Offering Circular, there have been no significant changes concerning our net equity. However, on February 13, 2017, our Board of Directors proposed to distribute approximately €72,126 thousand in dividends to the shareholders of the Company. See "*Management—Dividends*".

Furthermore, on March 2, 2017, the Company issued a series of €100.0 million fixed rate reset callable subordinated Tier 2 notes due 2027. See "*Business—Funding—€100.0 Million Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2027*".

SELECTED FINANCIAL INFORMATION AND OTHER DATA

The following tables set forth our selected financial information and other data as of the dates and for the indicated periods.

The selected financial information has been taken from our Consolidated Financial Statements.

The selected financial information in the tables below should be read together with, and is qualified in its entirety by reference to, our financial statements, including the notes thereto, which are included elsewhere in this Offering Circular. You should also read the following information in conjunction with "*Presentation of Financial and Other Information*", "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Capitalization and Regulatory Capital*".

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

The following tables set forth certain key financial information and ratios for the indicated periods.

	As of December 31,		
	2016(1)	2015	2014
	(in € thousands)		
Consolidated income statement			
Interest income and similar revenues	190,225	161,946	252,551
Interest expense and similar expenses	(31,020)	(28,898)	(44,240)
Net interest margin	159,205	**133,048**	**208,311**
Fee and commission income	7,833	8,389	9,444
Fee and commission expenses	(4,478)	(446)	(1,205)
Net Fees and Commissions	**3,355**	**7,943**	**8,239**
Dividends and similar income	60	—	—
Gains/losses on trading	682	46	497
Fair value adjustments in hedge accounting	(1)	(23)	(7)
Gains /(losses) on disposals/repurchases	706	872	953
Operating income	**164,007**	**141,886**	**217,993**
Impairment losses/reversals	(2,244)	(1,126)	43
Net profit from financial activities	**161,763**	**140,760**	**218,036**
Net profit from financial and insurance activities	**161,763**	**140,760**	**218,036**
Administrative Expenses			
of which personnel costs	(24,924)	(18,476)	(14,828)
of which other administrative expenses	(38,718)	(27,091)	(21,126)
Net provisions for risks and charges	(2,075)	(879)	(1,280)
Net adjustments to/writebacks on property, plant and equipment	(1,282)	(1,115)	(1,053)
Net adjustments to/writebacks on intangible assets	(1,334)	(1,023)	(689)
Other operating income/expenses	5,704	4,144	7,032
Operating costs	**(62,629)**	**(44,440)**	**(31,944)**
Profit before tax from continuing operations	**99,134**	**96,320**	**186,092**
Income taxes on profit from continuing operations	(26,997)	(27,529)	(61,714)
Profit after tax from continuing operations	**72,137**	**68,791**	**124,378**
Profit for the year	**72,137**	**68,791**	**124,378**
Profit for the year attributable to owners of the parent	**72,137**	**68,791**	**124,378**
Profit for the year a*djusted*(2)	**83,492**	**72,310**	**124,378**

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

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

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

(a) Of which €12,641 thousands for 2016 and €4,048 thousands for 2015 related to non-recurring administrative costs. Our profit and loss for the year closed on December 31, 2016 includes non-recurring costs for a total amount equal to €13,951 thousand, gross of the tax effect, related to: (i) the Magellan Acquisition for a total of €4,940 thousand; (ii) the costs of integrating Magellan, mainly relating to consultation services, equal to €967 thousand; (iii) the costs of the waiver connected to Magellan's delisting process equal to €3,963 thousand; (iv) other costs mainly related to the prepayments of certain liabilities of Magellan amounting to €576 thousand and (v) to the process concerning the possible initial public offering of our shares, for an amount equal to €3,505 thousand. The profit and loss for the year closed on December 31, 2016 also includes the extraordinary contributions to the Resolution Fund equal to €2,179 thousand. Furthermore, the profit and loss for 2016 includes €2.0 million relating to the financial expenses incurred due to the Magellan Acquisition. The profit and loss for 2015 includes non-recurring costs for a total of €4,048 thousand, gross of the tax effect relating to our possible public listing (which was later brought to a halt) equal to € 1,636 thousand, to costs relating to the analysis of possible acquisitions equal to €1,821 thousand and to costs relating to increased indirect taxes for €591 thousand. The profit and loss for 2015 includes extraordinary contributions to the Resolution Fund, equal to €1,101 thousand.

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

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

The following table shows-the aggregate profit and loss for the year ended December 31, 2016, consisting in the sum of the profit and loss of the Group (excluding the Magellan Group) and the profit and loss of Magellan Group for the year ended December 31, 2016.

	As of December 31, 2016
	(in € thousands)
Net interest margin	166.9
Net Fees and Commissions	3.4
Operating income	171.7
Impairment losses/reversals	(2.6)
Net profit from financial activities	169.1
Net profit from financial and insurance activities	169.2
Administrative costs	(66.3)
a) personnel costs	(26.3)
b) other administrative expenses	(40.0)
Operating costs	(65.0)
Profit before tax from continuing operations	104.1
Income taxes on profit from continuing operations	(28.0)
Profit for the year	**76.1**

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

	As of December 31,		
	2016 adjusted (including Magellan for 12 months)	2016, (including Magellan for 7 months)	2015
		(in € thousands)	
Interest income and similar revenues	204,022	190,225	161,946
Interest expense and similar expenses	(37,142)	(31,020)	(28,898)
Net interest margin	**166,880**	**159,205**	**133,048**
Net Fees and Commissions	**6,845**	**3,355**	**7,943**
Dividends and similar income	123	60	0
Gains/losses on trading	666	682	46
Fair value adjustments in hedge accounting	(1)	(1)	(23)
Gains /(losses) on disposals/repurchases	706	706	872
Operating income	**175,219**	**164,007**	**141,886**
Impairment losses/reversals	(2,678)	(2,244)	(1,126)
Administrative Expenses	(53,519)	(63,642)	(45,567)
Net provisions for risks and charges	(2,076)	(2,075)	(879)
Net adjustments to/write backs on property, plant and equipment and intangible assets	(2,729)	(2,616)	(2,138)
Other operating income/expenses	6,112	5,704	4,144
Profit before tax from continuing operations	**120,330**	**99,134**	**96,320**
Income taxes on profit from continuing operations	32,761	(26,997)	(27,529)
Profit for the year	**87,569**	**72,137**	**68,791**

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

	As of December 31,		
	2016	2015	2014
	(in € thousands)		
Assets			
Cash and cash equivalents	149	160	3
Financial assets held for trading	244	—	—
Financial assets at *fair value*	3,401	—	—
Available-for-sale financial assets	385,280	429,438	370,180
Held-to-maturity financial assets	1,629,320	822,859	955,932
Due from banks	144,871	60,523	97,726
Due from customers	2,499,094	1,962,004	1,554,957
Hedging derivatives	529	—	—
Equity investments	302	—	—
Property, plant and equipment	12,988	12,666	12,693
Intangible assets	25,811	2,747	2,053
of which goodwill	22,146	—	—
Tax assets	25,870	28,053	31,117
a) current	21,451	25,113	28,572
b) deferred tax assets	4,419	2,940	2,545
of which respect to Law 214/2011	749	547	470
Other assets	7,137	3,106	2,106
Total Assets	**4,734,996**	**3,321,556**	**3,026,767**

(*) Contains consolidated results from Magellan from June 3, 2016 through end of period. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors affecting our business—Magellan Acquisition*" and "*Business—Magellan Acquisition*".

	As of December 31,		
	2016	2015	2014
	(in € thousands)		
Equity and Liabilities			
Due to banks	634,807	688,081	968,264
Due to customers	2,996,142	1,726,683	1,168,587
Debt Securities issued	634,283	452,962	468,562
Financial liabilities held for trading	7	0	46
Hedging derivatives	176	0	47
Tax liabilities	73,659	70,583	73,057
a) current	24,130	23,805	30,885
b) deferred	49,529	46,778	42,172
Other liabilities	54,319	45,885	32,377
Provisions for employee severance indemnities	867	883	717
Provisions for risks and charges:	6,989	5,195	4,316
a) pensions and similar commitments	6,343	4,830	3,952
b) other provisions	646	365	364
Valuation reserves	4,495	4,184	4,035
Reserves	126,132	127,409	51,481
Share capital	130,983	130,900	130,900
Profit for the year	72,137	68,791	124,378
Total Equity and Liabilities	**4,734,996**	**3,321,556**	**3,026,767**

(*) Contains consolidated results from Magellan from June 3, 2016 through end of period. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors affecting our business—Magellan Acquisition*" and "*Business—Magellan Acquisition*".

Economic, operating and financial indicators

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

	As of and for the year ended December 31,			
	2016	2015	2014	2014 normalized
	(in € thousands, except percentages)			
Economic, operating and financial indicators				
ROE (%)(1)	27.6%	26.2%	47.4%	21.9%
ROE *adjusted* (%)(2)	31.9%	27.5%	47.4%	21.9%
ROTE (%)(3)	30.6%	26.5%	67.5%	31.2%
ROTE *adjusted* (%)(4)	35.4%	27.8%	67.5%	31.2%
EBTDA(5)	106,069	100,463	189,071	88,576
RoRWA(6)	13.2%	14.1%	24.1%	13.0%
RWA *density*(7)	56.4%	54.3%	60.9%	n.a.
Total volumes	5,879,185	6,286,414	5,450,721	n.a.
Operating income / average due from customers (%)(8)	7.4%	8.1%	16.2%	8.7%
Net interest margin / interest income and similar revenues (%)(9)	83.7%	82.2%	82.5%	70.9%
Cost/income ratio (%)(10)	40.4%	33.6%	17.3%	32.1%
Cost/income ratio adjusted (%)(11)	32.0%	30.0%	17.3%	32.1%
Operating costs/average due from customers (bps)(12)	297	271	280	n.a.
Non-performing exposures (net of impairment) /loans and receivables with customers-*factoring*	0.6%	0.1%	0.2%	n.a.
Own funds/weighted average due from customers-*factoring* (%)(13)	24.9%	38.4%	42.1%	n.a.
Leverage Ratio (%)(14)	5.5%	7.9%	8.7%	n.a.
Total collections (Group, excluding Magellan)	6,284,908	5,522,111	5,197,043	n.a.
Purchases of non-recourse receivables	3,002,807	2,985,774	2,501,626	n.a.
Collections of non-recourse receivables	2,994,849	2,526,544	2,167,143	n.a.
DSO (Italy)(15)	197	216	193	n.a.
Dividends paid	72,126	68,765	48,450	n.a.
DSO (Spain)(16)	72	148	197	n.a.
DSO (Portugal)(17)	n.a.	385	307	n.a.
Average Receivables from customers	2,095,942	1,594,721	1,348,153	n.a.
Average assets(18)	4,151,045	3,094,737	2,391,379	n.a.
ROA (%)(19)	1.7%	2.2%	5.2%	2.4%
Dividend payout ratio (%)(20)	100.0%	100.0%	39.0%	84.3%
Dividend per share paid(21)	42.41	40.45	28.50	n.a.
ROA *adjusted* (%)(22)	2.0%	2.3%	5.2%	2.4%

(1) Ratio between net profit of the year and shareholders' equity, including net profit or loss for the year and net of the dividends paid.

The following table shows the breakdown of the calculation of the ROE shown in the table above as of December 31, 2016, 2015 and 2014.

	At and for the year ended at December 31			
	2016	2015	2014	2014 normalized
	(in € thousands, except percentages)			
ROE				
Profit for the year (A)	72,137	68,791	124,378	57,468
Shareholders' equity	*261,610*	*262,493*	*186,416*	*186,416*
Dividends paid	*72,126*	*68,765*	*48,450*	*48,450*
Shareholders' Equity including profit for the year and net of dividends paid. (B)	261,621	262,519	262,344	262,344
ROE [(A)/(B)]	**27.6%**	**26.2%**	**47.4%**	**21.9%**

(2) The following table shows the breakdown of the calculation of the ROE adjusted shown in the table above as of December 31, 2016, 2015 and 2014.

	As of December 31			
	2016	2015	2014	2014 normalized
	(in € thousands, except percentages)			
ROE adjusted				
Adjusted profit for the year (A)	83,492	72, 310	124,378	57,468
Shareholders' Equity	*261,610*	*262,493*	*186,416*	*186,416*
Profit for the year	*72,137*	*68,791*	*124,378*	*124,378*
Dividends paid	*72,126*	*68,765*	*48,450*	*48,450*
Shareholders' Equity including profit for the year and net of dividends paid. (B)	261,621	262,519	262,344	262,344
ROE adjusted [(A)/(B)]	**31.9%**	**27.5%**	**47.4%**	**21.9%**

(3) Calculated from the ratio between the 'Profit for the year' and 'Shareholders' Equity (excluding profit for the year)' net of intangible assets.

The following table shows the combined profit for the year and the ROTE for the year ended December 31, 2016 including the Magellan Group for twelve months and adjusted to take into account non-recurring expenses.

	As of and for the year ended December 31, 2016
	(in € thousands, except percentages)
Profit for the year	72,137
Non-recurring costs[(a)]	13,951
Tax effect of recurring income[(b)]	(4,114)
Extraordinary contributions to Resolution Fund[(a)]	2,179
Tax effect of contributions to Resolution Fund[(c)]	(661)
Profit for the year adjusted[(b)]	**83,492**
Profit for the year of Magellan for 5 months (January 2016-May 2016)	**3,972**
Non-recurring costs of Magellan for 5 months (January 2016-May 2016)	**128**
Tax effect	**(24)**
Profit for the year adjusted combined	**87,569**
Shareholders' Equity (excluding profit for the year)	261,610
Intangible assets	25,811
ROTE (in relation to the total sum of the results)[(b)(c)]	**37.1%**

(a) Of which €12,641 thousands for 2016 related to non-recurring administrative costs. Our profit and loss for the year closed on December 31, 2016 includes non-recurring costs for a total amount equal to €13,951 thousand, gross of the tax effect, related to: (i) the Magellan Acquisition for a total of €4,940 thousand; (ii) the costs of integrating Magellan, mainly relating to consultation services, equal to €967 thousand; (iii) the costs of the waiver connected to Magellan's delisting process equal to €3,963 thousand; (iv) other costs mainly related to the prepayments of certain liabilities of Magellan amounting to €576 thousand and (v) to the process concerning the possible initial public offering of our shares, for an amount equal to €3,505 thousand.

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

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

The following table shows the breakdown of the calculation of the ROTE shown in the table above as of December 31, 2016, 2015 and 2014.

	At and for the year ended at December 31			
	2016	2015	2014	2014 normalized
	(in € thousands, except percentages)			
ROTE				
Profit for the year (A)	72,137	68,791	124,378	57,468
Shareholders' equity	*261,610*	*262,493*	*186,416*	*186,416*
Intangible assets	*25,811*	*2,747*	*2,053*	*2,053*
ROTE [(A)/(B)]	**30.6%**	**26.5%**	**67.5%**	**31.2%**

(4) The following table shows the breakdown of the calculation of the ROTE adjusted shown in the table above as of December 31, 2016, 2015 and 2014.

	At and for the year ended at December 31,			
	2016	2015	2014	2014 normalized
	(in € thousands, except percentages)			
ROTE adjusted[(*)]				
Adjusted profit for the year (A)	83,492	72,310	124,378	57,468
Shareholders' Equity	*261,610*	*262,493*	*186,416*	*186,416*
Intangible assets	*25,811*	*2,747*	*2,053*	*2,053*
ROTE adjusted [(A)/(B)]	**35.4%**	**27.8%**	**67.5%**	**31.2%**

(*) Calculated from the ratio between the 'Profit for the year' and 'Shareholders' Equity (excluding profit for the year) net of intangible assets.

(5) Total profit or loss before tax from continuing operations" gross of "Net losses on impairment of financial assets" and "Impairment on tangible and intangible assets" and "Net provisions for risks and charges.The following tables shows the breakdown of the calculation of the EBTDA shown in the table above as of December 31, 2016, 2015 and 2014.

	For the year ended at December 31			
	2016	2015	2014	2014 normalized
	(in € thousands)			
EBTDA				
Profit before tax from continuing operations(A)	99,134	96,320	186,092	85,597
Net losses/recoveries on impairment of financial assets (B)	*2,244*	*1,126*	*(43)*	*(43).*
Impairment/write-backs on property, plant and equipment and intangible assets (C)	*2,616*	*2,138*	*1,742*	*1,742.*
Net provisions for risks and charges (D)	2,075	879	1,280	1,280
EBTDA [(A)+(B)+(C)+(D)]	**106,069**	**100,463**	**189,071**	**88,576**

(6) Return on RWA (Risk weighted assets): ratio between "Operating income" and Average RWA (calculated as the average of the beginning and the end of the year balances). The following table shows the breakdown of the calculation of the RoRWA shown in the table above as of December 31, 2016, 2015 and 2014.

	At and for the year ended at December 31			
	2016	2015	2014	2014 normalized
	(in € thousands, except percentages)			
RoRWA				
Operating income (A)	164,007	141,886	217,993	117,411
Risk-Weighted Assets (RWA)	1,410,612	1,065,819	947,139	947,139
Average Risk-Weighted Assets (RWA) (B)	1,238,216	1,006,479	904,401	904,401
RoRWA [(A)/(B)]	**13.2%**	**14.1%**	**24.1%**	**13.0%**

(7) Ratio between RWA (Risk weighted assets) and due from customers.

(8) Ratio between "Operating income" and due from customers (calculated as the average of the beginning and the end of the year balances).The following table shows the breakdown of the calculation of the operating income/average due from customers shown in the table above as of December 31, 2016, 2015 and 2014.

	As of December 31,			
	2016	2015	2014	2014 normalized
	(in € thousands, except percentages)			
Operating income/Average due from customers				
Operating income (A)	164,007	141,886	217,993	117,411
Due from customers	2,499,094	1,962,004	1,554,957	1,554,957
Average due from customers (B)	2,230,549	1,758,481	1,345,768	1,345,768
Operating income/Average due from customers [(A)/(B)]	**7.4%**	**8.1%**	**16.2%**	**8.7%**

(9) The following table shows the breakdown of the calculation of the interest margin/ interest income and similar revenues shown in the table above as of December 31, 2016, 2015 and 2014.

	As of December 31,			
	2016	2015	2014	2014 normalized
	(in € thousands, except percentages)			
Interest margin/ interest income and similar revenues				
Interest margin (A)	159,205	133,048	208,311	107,729
Interest income and similar revenues (B)	190,255	161,946	252,551	151,969
Interest margin/ interest income and similar revenues [(A)/(B)]	**83.7%**	**82.2%**	**82.5%**	**70.9%**

(10) Ratio between the sum of "Administrative costs", "Impairment on tangible and intangible assets", and "Operating income". As of December 31, 2016 and 2015 the cost/income ratio *adjusted (combined)* was equal to 32% and 30% respectively. The following table shows the breakdown of the calculation of the Cost/income ratio shown in the table above as of 2016, 2015 and 2014.

	As of December 31,			
	2016	2015	2014	2014 normalized
	(in € thousands, except percentages)			
Cost/income ratio				
Administrative costs (A)	63,642	45,567	35,954	35,954
Impairment/write-backs on property, plant and equipment and intangible assets (B)	2,616	2,138	1,742	1,742
Operating income (C)	164,007	141,886	217,993	117,411
Cost/income ratio [(A)+(B)] / (C)	**40.4%**	**33.6%**	**17.3%**	**32.1%**

(11) Ratio between the sum of "Administrative costs" net of "Adjustment related to non-recurring administrative costs", "Impairment on tangible and intangible assets" and "Operating income".

The following table shows the breakdown of the calculation of the Cost/income ratio adjusted shown in the table above as of December 31, 2016, 2015 and 2014.

	For the year ended at December 31			
	2016	2015	2014	2014 normalized
	(in € thousands, except percentages)			
Cost/income ratio adjusted				
Administrative costs	63,642	45,567	35,954	35,954
Non-recurring administrative costs(*)	(12,641)	(5,149)	—	—
Administrative costs net of adjustment for non-recurring administrative costs (A)	51,001	40,418	35,954	35,954
Impairment/write-backs on property, plant and equipment and intangible assets (B)	2,616	2,138	1,742	1,742
Operating income (C)	164,007	141,886	217,993	117,411
Cost/income ratio adjusted [(A)+(B)] / (C)	**32.0%**	**30.0%**	**17.3%**	**32.1%**

(*) For the year ended December 31, 2016 administrative costs include non-recurring charges of €12,641 thousand, gross of tax, relating to: (i) the Magellan acquisition for €4,940 thousand, (ii) the costs of integrating Magellan, mainly relating to consultation services, equal to €967 thousand, (iii) the costs of the waiver connected to Magellan's delisting process equal to €473 thousand, (iv) the IPO process for €3,505 thousand (v) other costs mainly related to the prepayments of certain liabilities of Magellan amounting to €576 thousand. Administrative costs for 2016 include extraordinary contributions to the Resolution Fund, equal to €2,179 thousand. For the year ended December 31, 2015 administrative costs include non-recurring charges for a total of €4,048 thousand, gross of the tax effect relating to our possible public listing (which was later brought to a halt) equal to €1,636 thousand, to costs relating to the analysis of possible acquisitions equal to €1,821 thousand and to costs relating to increased indirect taxes for €591 thousand. Administrative costs for 2015 include extraordinary contributions to the Resolution Fund, equal to €1,101 thousand.

(12) Operating costs include "Administrative costs" and "Impairment on tangible and intangible assets". "Average due from customers" are calculated as the average of the beginning and the end of the year balances.

(13) The weighting applied to receivables from the Public Debtors is equal to 50%

(14) Ratio between the sum of "Shareholders' equity", "Net profit or loss for the year" (net of the dividends paid) and "Shareholders' equity".

(15) Average days of late payment of the Italian National Healthcare System (INHS).

(16) Source: FENIN data from the Spanish healthcare system.

(17) Source: Apifarma, data from the Portuguese healthcare system.

(18) Average balances calculated based on the accounting data on end-of-three months balances.

(19) Ratio between the "Net profit or loss for the year" and "Average assets".The following table shows the breakdown of the calculation of the RoA shown in the table above as of December 31, 2016, 2015 and 2014.

	As of December 31			
	2016	**2015**	**2014**	**2014 normalized**
	(in € thousands, except percentages)			
ROA				
Profit for the year (A)	72,137	68,791	124,378	57,468
Average assets(*) (B)	4,151,045	3,094,737	2,391,379	2,391,379
ROA [(A)/(B)]	**1.7%**	**2.2%**	**5.2%**	**2.4%**

(*) Average balances calculated on the basis of data from the accounting records at the end of the quarter.

(20) Ratio between "Dividends paid" and "Net profit or loss for the year" referred to the consolidated financial statement of the Group.

The following table shows the breakdown of the calculation of the dividend payout ratio shown in the table above as of December 31, 2016, 2015 and 2014.

	For the year ended at December 31			
	2016	**2015**	**2014**	**2014 normalized**
	(in € thousands, except percentages)			
Dividend payout ratio				
Dividends paid (A)	72,126	68,765	48,450	48,450
Profit for the year (B)	72,137	68,791	124,378	57,468
Dividend payout ratio [(A)/(B)]	100.0%	**100.0%**	39.0%	**84.3%**

(21) Ratio between "Dividends paid" and average number of shares.

(22) The following table shows the breakdown of the calculation of the RoA adjusted shown in the table above as of December 31, 2016, 2015 and 2014.

	As of December 31,			
	2016	**2015**	**2014**	**2014 normalized**
	(in € thousands, except percentages)			
ROA adjusted				
Adjusted profit for the year (A)	83,492	72,310	124,378	57,468
Average assets(*) (B)	4,151,045	3,094,737	2,391,379	2,391,379
ROA adjusted [(A)/(B)]	**2.0%**	**2.3%**	**5.2%**	**2.4%**

(*) Average balances calculated based on the accounting data on end-of-three months balances.

Prudential Requirements

The table below sets forth our own funds and prudential requirements as of December 31, 2016, 2015 and 2014.

	As of December 31,		
	2016	2015	2014
	(in € thousands, except percentages)		
Common Equity Tier 1 CET1 before prudential filters	261,139	262,012	262,106
Additional Tier 1 Capital (AT1)	—	—	—
Tier 2 Capital (T2)	—	0	0
Own funds	**235,345**	**259,265**	**260,053**
Credit and counterparty risk	82,998	60,809	52,831
Credit valuation risk	76	—	—
Market risks:	—		
a) Standardized approach	—	—	*94*
b) Internal models	—	—	—
c) Concentration risk	—	—	—
Operational risk:	—		
a) Basic indicator approach	*29,775*	*24,457*	*22,846*
b) Standardized models	—	—	—
c) Advanced measurement approach	—	—	—
Total capital requirements	**112,849**	**85,266**	**75,771**
Risk-weighted assets (RWA)	1,410,612	1,065,819	947,139
RWA/total assets	29,8%	32.1%	31.3%

The table below sets forth the own funds attributable to the Banking Group and minority interest shareholders as of December 31, 2016, 2015 and 2014, under the Basel III framework.

	As of December 31,		
	2016	2015	2014
	(in € thousands, except percentages)		
Banking Group Regulatory Capital Ratios			
Common Equity Tier 1/Risk-weighted assets (CET1 Capital Ratio)	16.7%	24.3%	27.5%
Tier 1 Capital/ Risk-weighted assets (Tier 1 Capital Ratio)	16.7%	24.3%	27.5%
Total Own funds/ Risk-weighted assets (Total Capital Ratio)	16.7%	24.3%	27.5%
Leverage ratio(1)	4.9%	6.1%	7.2%
Risk-weighted assets	1,410,612	1,065,819	947,139

(1) Ratio between the sum of "Shareholders' equity", "Net profit or loss for the year" (net of the dividends paid) and "Shareholders' equity".

Impact of the Magellan Acquisition

All of the tables in this section aim at providing a breakdown of the impact of the Magellan Acquisition on certain key financial information and ratios of the Group. As of December 31, 2016, the increase in the Group's financial assets and liabilities is primarily due to the inclusion, in the consolidated financial statement, of the records relating to the Magellan Group. The following tables show the composition of the Group's consolidated financial statement including and excluding Magellan, as of December 31, 2016.

	Group Total, excluding Magellan, as of December 31, 2016	Contribution from the Magellan Acquisition	Group Total, including Magellan, as of December 31, 2016
		(in € thousands)	
Assets			
Cash and cash balances	146	3	149
Financial assets held for trading	111	133	244
Financial assets at fair value	—	3,401	3,401
Available-for-sale financial assets	385,280	—	385,280
Held-to-maturity financial assets	1,629,320	—	1,629,320
Due from banks	138,454	6,417	144,871
Due from customers	2,051,939	447,155	2,499,094
Hedging derivatives	529	—	529
Equity Investments	—	302	302
Property, plant and equipment	12,433	555	12,988
Intangible assets	3,314	22,497	25,811
Of which: goodwill	—	22,146	22,146
Tax assets	24,637	1,233	25,870
a) current	20,769	682	21,451
b) deferred	3,868	551	4,419
of which respect to Law 214/2011	749	—	749
Other assets	4,000	3,137	7,137
Total Assets	**4,250,163**	**484,833**	**4,734,996**

	Group Total, excluding Magellan, as of December 31, 2016	Contribution from the Magellan Acquisition	Group Total, including Magellan, as of December 31, 2016
		(in € thousands)	
Equity and Liabilities			
Due to banks	603,346	31,461	634,807
Due to customers	2,925,450	70,692	2,996,142
Debt securities issued	538,339	95,944	634,283
Financial liabilities held for trading	7	—	7
Hedging derivatives	176	—	176
Tax liabilities	72,211	1,448	73,659
a) current	23,306	824	24,130
b) deferred	48,905	624	49,529
Other liabilities	42,778	11,541	54,319
Provisions for employees severance indemnities	867	—	867
Provision for risk and charges	6,714	275	6,989
a) pensions and similar commitments	6,343	—	6,343
b) other provisions	371	275	646
Shareholders' equity (excluding the results of the period)	261,610	—	261,610
Profit for the year	69,285	2,852	72,137
Total Equity and Liabilities	**4,520,784**	**214,213**	**4,734,997**

The total due from customers, net of Magellan's contribution, increased from €1,962,004 thousand as of December 31, 2015 to €2,051,939 thousand as of December 31, 2016, primarily due to the larger amount of outstanding receivables in Italy.

The total for due to customers, net of Magellan's contribution, increased from €1,726,683 thousand as of December 31, 2015 to €2,925,450 thousand as of December 31, 2016, as a result of the increased exposures from the online term deposit accounts and the rise in repo transactions in order to refinance the Company's securities portfolio. With regards to this particular objective, the Group has increased its operations in repo transactions and reduced its use of the ASTE OMA platform ("**ASTE OMA**") with the ECB as of December 31, 2016 in comparison with December 31, 2015.

The table below shows the main financial indicators of the Group as of December 31, 2016 and 2015.

	Year ended December 31, 2016	Year ended December 31, 2015
	(in percentages)	
Equity and financial indicators		
Financial assets * / Total assets	42.6%	37.7%
Due from banks / Total loans	5.5%	3.0%
Due from customers / Total loans	94.5%	97.0%
Non-recourse receivables / Due from customers	84.1%	97.0%
Due to banks / Total owed	17.5%	28.5%
Due to customers / Total owed	82.5%	71.5%
Repo transactions / Due to customers	60.4%	53.3%
Debt securities issued / Total liabilities and net equity	13.4%	13.6%
Net equity (including profits) / Total liabilities and net equity	7.0%	10.0%

(*) Financial assets include "Financial assets for trading", "Financial assets at fair value", "AFS Financial assets" and "HTM Financial assets" of the Group's balance sheet.

The increasing trend concerning "financial activities/total assets" relates to the increase in our securities portfolio that, alongside the increase in available financial resources for the Group, allows us to produce and manage the liquidity that can be used to support the development of our business.

The increasing pattern concerning repo transactions is due to the refinancing activities carried out in relation to the government securities in our investment portfolio.

The decreasing trend of the ratio between non-recourse receivables and due from customers which we experienced as of December 31, 2016 was due to the Magellan Acquisition. The Magellan Acquisition on the one hand lead to a significant margin of growth for the Group, on the other hand, widened the range of financial services which we offer to our customers (and therefore are no longer almost exclusively related to the non-recourse factoring business).

In order to represent the contribution from the Magellan Acquisition, the table below shows the amounts of the receivables arising from purchases on a non-recourse basis by the Group as of December 31, 2016 excluding Magellan. The receivables arising from purchases on a non-recourse basis exclusively refer to the receivables relating to the carrying out of the factoring business within the context of our Traditional Activities.

	As of December 31, 2016				
	Gross amount	Impairment losses	% of impairment on gross amount	Net amount	% on Group Total, excluding Magellan
	(in € thousands)				
Purchased receivables					
Performing exposures	1,936,618	(3,471)	(0.2)%	1,933,147	97.4%
Impaired exposures purchased performing	53,809	(1,711)	(3.2)%	52,098	2.6%
Impaired exposures purchased impaired	971	(479)	(49.3)%	492	0.0%
Total	**1,991,398**	**(5,661)**	**(0.3)%**	**1,985,737**	**100.0%**

The table below shows the Group's impaired exposures as of December 31, 2016.

	As of December 31, 2016				
	Gross amount	Impairment losses	% of impairment on gross amount	Net amount	% on non-recourse receivables purchased
			(in € thousands)		
Impaired assets					
Past due exposures					
Past due exposures with assigned debtors and other exposures towards debtors	45,716	(82)	(0.2)%	45,634	2.2%
Past due exposures with assignors and other financing	533	—	—	533	0.0%
Non performing exposures	—	—	—	—	—
Non-performing exposures with assignors and other financing	3,589	(1,220)	(34.0)%	2,369	0.1%
Non-performing exposures with assigned debtors and other exposures towards debtors	12,818	(3,122)	(24.4)%	9,696	0.5%
Receivables for interest on late payments	13,596	(13,596)	(100.0)%	—	0.0%
Unlikely to pay exposures	—	—	—	—	—
Unlikely to pay with assignors and other financing	2,837	(77)	(2.7)%	2,760	0.1%
Unlikely to pay with assigned debtors and other exposures towards debtors	879	(24)	(2.7)%	855	0.0%
Total	**79,968**	**(18,121)**	**(22.7)%**	**61,847**	**2.9%**

It should be noted that the net value of impaired exposures with assignors and other financing and net value of impaired exposures with assigned debtors and other exposures towards debtors include €5.6 million and €3.6 million, respectively, related to Magellan.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We encourage you to read the following discussion together with the section entitled "Selected Financial Information and Other Data" as well as with our 2016 Annual Consolidated Financial Statements, 2015 Annual Consolidated Financial Statements and 2014 Annual Consolidated Financial Statements and the related notes thereto included elsewhere in this Offering Circular. The discussion below analyzes our Group's historical results of operations and financial condition. We describe certain factors that have affected, and may continue to affect, our business, results of operations and financial condition. The impact of these and other potential factors may vary significantly in the future.

In addition, the following discussion includes forward looking statements which, although based on assumptions that we consider reasonable, are subject to risks and uncertainties which could cause actual events or conditions to differ materially from those expressed or implied by the forward looking statements. For a discussion of some of those risks and uncertainties please refer to the sections entitled "Forward-Looking Statements" and "Risk Factors".

Reclassifications have been made to aggregate and/or change certain line items from the financial statements and, in some instances, by creating new line items or moving amounts to different line items. For a summary of such reclassifications, see "Presentation of Financial Information".

The reclassifications made to our financial information may make it difficult for prospective investors to make comparisons between our different sets of financial information. Prospective investors are therefore cautioned against placing undue reliance on such comparisons.

Overview

We are specialized in the management, collection and non-recourse factoring of receivables to suppliers of, primarily, the entities of the national healthcare systems and other public administration entities in Italy, Spain and Portugal (jointly the "**Southern European Market**"), directly operated by the Company, and by our subsidiary Farmafactoring España ("**Farmafactoring España**"). Our Traditional Activities consist of: (i) credit collection management ("**Credit Collection Management**") and (ii) non-recourse factoring ("**Non-Recourse Factoring**") in Italy, Spain and Portugal. Following the Magellan Acquisition in June 2016, we also offer a wide range of financial services (including non-recourse factoring) to the public and healthcare sectors in Poland, Slovakia and the Czech Republic (jointly the "**Eastern European Market**").

Factors affecting our Results of Operation

Macroeconomic overview

The global economy, the condition of financial markets and adverse macroeconomic developments in our primary geographical markets influenced our performance for the year ended December 31, 2014, 2015 and 2016.

In 2010, in response to the financial crisis, the European Central Bank (the "**ECB**") launched a government bond purchase program and in 2011 strengthened its open market operations. Notwithstanding such actions, financial markets remained volatile. The loss of confidence in the ability of certain Eurozone countries to manage their sovereign debt and the fears of such instability spreading to other Eurozone countries were also reflected in Euro exchange rates, resulting in the weakening of the Euro. Such loss of confidence also led to the downgrading of several Eurozone countries' sovereign credit ratings, including Italy, Spain and Portugal. As a result, in 2012 financial support mechanisms in the Eurozone were strengthened.

In December 2015, the ECB issued a new package of measures, reducing the interest on deposits in the Eurosystem banks by ten basis points, to negative 0.30%, extending the duration of the securities markets program by six months, and extending the range of securities allowed so that it includes bonds issued by local and regional public administrations in the Eurozone.

Furthermore, the strengthening of the ECB's securities markets program had a positive effect on the sovereign spreads of the Eurozone. Since the beginning of October, the differentials in the yield recorded contractions for Italy bringing the spread to about 100 basis points, also for Spain and Ireland, but remained more or less stable elsewhere. The ECB's expansionist monetary policy and the move to increase interest rates in the United States are reflected in the Euro exchange rate which from about mid-October onwards lost about 4% of its value against the U.S. dollar.

Italy's rating was downgraded in 2013 by Fitch from "A−" to "BBB+", and by DBRS from "A" to "A (low)". Between 2013 and 2014 Standard & Poor's lowered Italy's rating from "BBB+" to "BBB−". On August 5, 2016 and October 21, 2016 DBRS and Fitch Ratings modified respectively their outlook for Italy from stable to negative. It should be noted that on January 13, 2017 DBRS announced that it had downgraded the Republic of Italy's Long-Term Foreign Currency and Local Currency Issuer Ratings from A (low) to BBB (high) and, therefore, as of the date of this Offering Circular, the ratings attributed to Italy are: (i) Standard & Poor's "BBB−"; (ii) Moody's "Baa2"; (iii) Fitch "BBB+"; and (iv) DBRS "BBB− High". In addition, on January 13, 2017, Fitch Ratings and Moody's gave the Republic of Italy a negative outlook, whilst Standard & Poor's and DBRS assigned a stable outlook.

As of the date of this Offering Circular, the ratings attributed to Spain are: (i) Moody's "Baa2"; (ii) Fitch "BBB+"; (iii) Standard & Poor's "BBB+"; and (iv) DBRS "A (low)", and those attributed to Portugal are: (i) Standard & Poor's "BB+"; (ii) Moody's "Ba1"; (iii) Fitch "BB+"; and (iv) DBRS "BBB (low)".

As of the date of this Offering Circular, the ratings attributed to Poland are: (i) Standard & Poor's "BBB+"; (ii) Moody's "A2"; (iii) Fitch "A−"; and (iv) DBRS "A (low)", those attributed to Czech Republic are: (i) Standard & Poor's "AA−"; (ii) Moody's "A1"; and (iii) Fitch "A−", and those attributed to Slovakia are: (i) Standard & Poor's "A+"; (ii) Moody's "A2"; (iii) Fitch "A+" and (iv) DBRS "A (high)".

These credit rating downgrades have contributed to increased costs of funding for most Italian financial institutions. If Italy's ratings further worsen, it could affect our ability to access funds through the capital markets or otherwise on acceptable financial terms. For more information regarding this risk, see "*Risk Factors—Risks Related to Our Business—Our exposure to Italian government sovereign debt is significant and we may be adversely impacted by any adverse change in the creditworthiness of the Republic of Italy*". Our counterbalancing capacity (*i.e.* the capacity to face short term commitments through highly marketable securities registered in our balance sheet) may lessen the liquidity risk and the increase in the costs of funding which may arise due to a possible negative variation in the Republic of Italy's rating.

In particular, the downgrade of Italy by one notch by Group's ECAI had a negative effect on the CET1 and Total Capital Ratio of the Banking Group (as if such fact had occurred as of December 31, 2016) equal to approximately 3.6%. In order to mitigate the impact of the downgrade, our Board of Directors has resolved upon the implementation of the issuance of the 2027 Notes. In addition, our Board of Directors decided to raise the percentage of the estimated amount of late payment interest to be collected from 40% to 45% (resulting in a one-off positive capital impact of potentially up to an additional 1% approximately, of our Total Capital Ratio). As of December 31, 2016, the CET1 ratio and Total Capital Ratio of the Group, restated as of that date in order to take into account the issuance of the 2027 Notes and the increase in the percentage of the estimated amount of late payment interest to be collected from 40% to 45%, were equal to 14.1% and 19.5%, respectively. See "*Business—Capital Ratios*".

In 2015, credit volumes remained low, partially due to a lack of demand by investors for productive investments; households resumed saving, but did not invest, due to ongoing uncertainties over future economic performance (*Source*: European Commission). In response to anemic growth, in September 2014, the ECB commenced the Quantitative Easing ("**QE**") program, initially limited to the monthly purchase of asset-backed securities as well as of covered bonds. Since January 2015, the program has been expanded to include government securities traded on the secondary market. The monthly purchase of government bonds (for an amount equal to approximately €60 billion) started in March 2015; in March 2016, the ECB announced an increase in the monthly purchase of government bonds, up to an amount equal to approximately €80 billion, an extension of the program until at least March 2017. The monthly purchases will be carried out until inflation is in line with the ECB targets, which is currently set at around 2%. Despite the expansionary monetary policy and measures adopted by the ECB, bankruptcy rates remained high in 2015, thus keeping "*bad loans*" ratios and relative provisions at record levels.

Interest rates were significantly affected by the financial crisis, with central banks, including the ECB, continuing to reduce interest rates. Due to the financial crisis, the ECB's main refinancing rate was reduced approximately three times between December 31, 2012 and the date of this Offering Circular, bringing it down to negative 0.05%. These policy actions, combined with the abundance of liquidity, contributed to significant declines in Euribor market rates.

Interest rates on Italy's government bonds have been generally declining since 2012, with the median gross yield being 1.7% as of December 31, 2015, and 2.9% as of December 31, 2014.

Interest income earned on government bonds in the portfolio and gains and / or losses from the sale of the same are recorded in the Group's income statement in the items "Interest income and similar revenues" and "income (losses) from sale or repurchase of financial assets".

The following table shows the impact of the management of securities status on the interest margin, the operating income and profit for the Group's operating results table for years ended December 31, 2016 and 2015.

	Year ended December 31, 2016	Year ended December 31, 2015
	(in € thousands)	
Interest income and similar revenues	3,994	5,848
Gains (losses) on disposal or repurchase of financial assets	706	872
Total	**4,700**	**6,720**

Concentration of customers with reference to Traditional Activities

The following table shows the incidence of the total value of the top ten customers for total turnover and the top ten customers for purchased receivables based on the Group's totals, excluding Magellan, related to our total business volumes as of December 31, 2016.

	Volumes as of December 31, 2016	% on Group's total volumes	Purchased receivables as of December 31, 2016	% on Group's volumes of purchased receivables
	(in € thousands, except percentages)			
Top ten customers total	2,723,514	46.3%	1,211,197	40.3%
Other customers total	3,155,671	53.7%	1,791,610	59.7%
Group's Total	**5,879,185**	**100.0%**	**3,002,807**	**100.0%**

Italian financial crisis

Given that the majority of our revenues are sourced from Italy and our headquarters are located in Milan, our business is sensitive to adverse macroeconomic conditions in Italy. Italy's GDP increased by 0.9% as of December 31, 2016, by 0.8% in 2015 as compared to a decrease of 0.4% in (*Source*: *Istat*). The negative trend of the Italian economic cycle in 2014 and 2015 and 2016 was primarily driven by a decrease in demand, both in terms of families' consumption levels (with a slight increase of 0.5% in 2014, of 1.5% in 2015 and of 1.3% in 2016) and fixed investments (down, 1.7% in 2014 alone and up 1.6% in 2015 and 3.0% in 2016). The only positive contribution to the Italian GDP in 2014 was provided by the increase in exports of goods and services of 2.4%. In 2015 and 2016, in addition to positive exports impact of respectively 3.7% and 1.7%, positive contributions also derive from households' consumptions of 1.5% and 1.3%, and fixed investments of 1.6% and 3.0%. Italian industrial production decreased by 0.7% in 2014 and increased by 1.1% in 2015 and 1.6% in 2016.

However, since 2015, the Italian economy entered a phase of (although weak) recovery due to the gradual stabilization of domestic demand. Household consumption increased by 1.3% in 2016, while the increase in fixed investments was approximately 3.0% (*Source*: *Istat*). Furthermore, in 2016, Italy experienced moderately favorable trends in foreign trade (growth of 1.7% for exports in 2016, 8.0% over the three years 2014-2016) and an improvement in production activities, which had a positive impact on employment (*Source*: *Istat*).

In terms of labor market conditions, the unemployment rate reached historically high levels (12.3% at the end of 2014 and 11.6% at the end of 2015 and 11.9% at the end of 2016), especially with reference to youth unemployment, which rose to about 40% (40.6% in 2014 and 38.1% in 2015 and 39.2% in 2016) (*Source*: *Istat*). Inflationary pressure gradually declined over the last three years, reaching very low levels in 2016 (with inflation down to −0.1% in December 2016 from 0.2% at the end of 2014), especially due to the extended downturn in services and commodity prices, of which energy prices were significant (*Source*: *Istat*).

Italy, which did not enact any stimulus measures due to its high level of public debt, suffered greater GDP impasse than certain other European countries during the crisis (average GDP growth of 0.1% for Italy compared to a 6.1% increase for the European Union for end 2012-2016 period) (*Source*: *Eurostat*). The nominal, book and fair value of Italian government securities held by us as of December 31, 2016 and 2015 was as set forth in the below table:

	For the year ended December 31, 2016		
	Nominal value	Book value	Fair value
	(in € thousands)		
Available-for-sale financial assets	375,000	385,085	385,085
Held-to-maturity financial assets	1,596,500	1,629,320	1,632,899
Total	**1,971,500**	**2,014,405**	**2,017,984**

	For the years ended December 31, 2015		
	Nominal value	Book value	Fair value
	(in € thousands)		
Available-for-sale financial assets	419,000	429,415	429,415
Held-to-maturity financial assets	799,500	822,859	826,912
Total	**1,218,500**	**1,252,274**	**1,256,327**

As of December 31, 2016 and 2015, the book value of our financial assets was equal to 42.6% and 37.7%, respectively, of our total assets. As of December 31, 2016 and 2015, we did not hold any structured securities in our portfolio.

The recovery of the Italian economy from the recent global financial crisis and recession has lagged behind the other major economies in the Eurozone. At the end of 2016, confidence, production orders, the exchange rate trend, the trend in oil prices and the ECB's adoption of extraordinary expansionary policies all supported expectations of a reverse in the cycle and easing of deflationary pressures.

Furthermore, since 2011 the Italian financial markets have been negatively affected by concerns regarding Italy's sovereign debt. The Italian sovereign debt-to-GDP ratio reached 131.8% in 2014, increased to 132,0% in 2015 and increased to 132,6% as of December 31, 2016 (*Source*: *Istat*). During the three year period there was a clear deterioration in the quality of bank credit portfolios, as shown primarily by the significant annual growth in non-performing loans registered in the last three years (17.9% in 2014, 9.0% as of December 2015 compared to December 2014, and −1.0% as of September 2016 compared to December 2015, with a 9.2% increase in CAGR for the three years 2014-2016 9M) (*Source*: *Bank of Italy*). See "*Risk Factors—Risks Related to Our Business—Our business and results are impacted by the current volatile macroeconomic environment globally and in the countries in which we operate*".

Factors affecting our business

Calculation method used to estimate the recoverability of late payment interest

Due to the change in the method used to calculate the recoverability of late payment interest applied by us over the past three years, it is not possible to fully compare the financial statements for the years ended December 31, 2016 and 2015 with those for the year ended December 31, 2014 included in this Offering Circular.

We calculate late payment interest on non-recourse receivables that we have purchased in accordance with applicable law on combating late payment in commercial transactions. EU IFRS (IAS 18) permits the inclusion of interest in a company's income statement only if it is likely to generate positive cash flows for a company and such projected cash flows can be estimated reliably.

Until December 31, 2013, we had no reliable estimates of the recovery percentage of late payment interest and the timing for collection, we did not recognize non-invoiced late payment interest accrued on our portfolio of receivables and we completely wrote-off any invoiced and uncollected late payment interest by creating a provision recognized as a reduction of assets. Concurrently with the actual collection of late payment interest, the write-off was reversed and these amounts were recognized in our income statement, based on the percentage of actual recovery.

In 2014, we adopted evaluation tools that allow us to collect historical data and calculate reliable estimates of the recovery percentage of late payment interest and the timing for collection. Thanks to such tools, we have estimated, on the basis of our historical data on collected amounts and timing for collection, the percentage of late payment interest that will be collected to be equal to 40% of its nominal value at the date of collection (estimated to fall within 1800 days from the maturity date). Due to the change in the method used to calculate the recoverability of late payment interest, we recorded in our income statement for the year ended December 31, 2014 an estimated amount of late payment interest relating to receivables recognized in 2014 and previous years equal to €113,396 thousand (€12,814 thousand relating to receivables recognized in 2014 and €100,582 thousand relating to receivables recognized in previous years). As of the year ended December 31, 2014 and 2015 the late payment interest fund amounted to €427 million and €460 million, respectively. Taking into account a period that stretched over the past seven years, the collected amounts of late payment interest have shown an increase in the relative percentage of average recovery by over 5%. For this reason, our Board of Directors, on the basis of our historical data on collected amounts and timing for collection, and in relation to the portfolio of purchased receivables in our Traditional Activities, has resolved upon a variation of the estimated amount of late payment interest collection, which shall entail, from January 1, 2017, an increase in the estimation of the percentage of the amount of late payment interest that will be collected up to 45%.

Magellan's management has determined the evaluation criteria for late payment interest recovery, which confirm an almost full recovery of the late payment interest recognized in their balance sheet, net of discounts and/or rounding offs granted to the relevant debtor at a maximum rate of 3%. The income statement for the year ended December 31, 2015 (and any subsequent year) only records late payment interest relating to that year, and any gains or losses on the estimated amounts. As of December 31, 2015, the late payment interest fund amounted to €460 million, of which uncollected late payment interest equal to €151 million was recognized in the income statement for that year and previous years. As of December 31, 2016, the late payment interest fund amounted to €547 million, of which uncollected late payment interest equal to €186 million was recognized in the income statement.

Due to the change in the method used to calculate the recoverability of late payment interest for our Traditional Activities in 2014, our income statement for the year ended December 31, 2015 recorded a decrease of €89,772 thousand from 2014, with profit before tax from continuing operations totaling €96,320 thousand.

If the change in the method used to calculate the recoverability of late payment interest had been applied from December 31, 2011, our profit before tax from continuing operations for the year ended December 31, 2014 would have amounted to €85,597 thousand. Therefore, the normalized amounts would have shown an increase of €10,723 thousand from the year ended December 31, 2014 to the year ended December 31, 2015.

On November 9, 2016 the Bank of Italy, CONSOB and IVASS issued a document (Document Banca d'Italia/Consob/Ivass n.7) concerning the methods of estimation to be used in order to calculate late payment interest. Although we believe that our current method of estimating the recoverability of late payment interest, adopted in 2014, is in line with these provisions, we cannot exclude that the competent supervisory authorities may detect criticalities in the future concerning the estimation process.

Profit before tax and provisions resulting from our outstanding portfolio in relation to our Traditional Activities, excluding the Magellan Group, not yet registered in profit and loss

With the application of the amortized cost criteria in relation to our receivables portfolio and late payment interest for every balance sheet date, the Company has not registered in its profit and loss statement the following values: (i) the difference between the principal amount of the receivable and the book value of outstanding receivables; (ii) the difference between the value of late payment interest already recorded on an accrual basis at the recovery rate and the principal amount in relation to which said interest shall be collected at the expected collection date (*i.e.* 40% until December 31, 2016, and 45% from January 1, 2017); (iii) the further late payment interest not yet accrued and that will accrue until the payment date of non-recourse receivables held in our outstanding receivables portfolio and (iv) any capital gains/losses with respect to the estimated percentage of late payment interest recovery.

DSOs

We determine the price at which we acquire receivables in the context of our non-recourse factoring business based on the "*days sales outstanding*" ("**DSO**") of such receivables and the credit ratings of our clients and debtors. Through our database we carefully monitor the payment patterns and average DSOs for each debtor in order to estimate the average timing for collection of the receivables and late payment interest.

Any significant increase in DSOs, for example due to deficiencies or delays in government funding, would mean that we have incorrectly estimated the timing for collection of the relevant receivables and late payment interest and could result in us having insufficient liquidity levels.

Conversely, any significant decrease in DSOs could negatively affect the profitability of our non-recourse factoring business. Although in the short term we may receive higher income from late payment interest and maturity commission, in the long term our clients may no longer require our services and therefore our volumes of receivables may decrease.

Since 2013, we have recorded a sharp decrease in DSOs due to improved payment patterns, the favorable outcome of legal actions against debtors to enforce outstanding payments, as well as recent regulatory changes aimed at improving the efficiency of the national healthcare system and public sector.

Pursuant to these regulatory measures, the governments of Italy and Spain have granted funds to public entities in order to improve the payment terms with suppliers. In the short term this has increased our profitability, as we have received greater income from maturity commission and late payment interest. However, any improved efficiency of the national healthcare system and public administration achieved through the introduction of further measures in Italy, Spain and Portugal in the future could result in the decrease of DSOs, lower income from maturity commission and late payment interest and a lower demand for our services. See "*Risk Factors—Risks Related to Our Business—We may incorrectly evaluate DSO relative to the payments of the debtors*".

Conversion into a bank

We obtained our banking license in Italy in January 2013 and became a bank in July 2013. Since becoming a bank, we have been able to diversify and expand our sources of funding, while also significantly reducing our funding costs.

Thanks to our banking license, in September 2014 we launched our first retail product on the Italian market, the "*Conto Facto*" online term deposit account aimed at both retail and corporate customers. In May 2015 we also launched the "*Conto Facto Plus*" online term deposit account in Italy. In February 2015 the Banco de España authorized us to open a branch in Spain, through which in August 2015 we launched a similar retail product to the "*Conto Facto*" online term deposit account, namely the "*Cuenta Facto*" online term deposit account. As of December 31, 2016 we held deposits totaling €822,438 thousand through our "*Conto Facto*", "*Conto Facto Plus*" and "*Cuenta Facto*" online term deposit accounts. As of December 31, 2015 we held deposits totaling €416,652 thousand through our "*Conto Facto*", "*Conto Facto Plus*" and "*Cuenta Facto*" online term deposit accounts, compared to deposits totaling €226,258 thousand held as of December 31, 2014.

Our banking license has allowed us to access the interbank system and the Eurosystem through the ABACO platform (*Attivi Bancari Collateralizzati*, i.e. collateralized bank assets) and to participate in the Eurosystem's open market operations with the ECB and other financial institutions through repo transactions. In addition, in June 2014 we issued bonds of an aggregate principal amount of €300 million which are listed on the Irish Stock Exchange and in June 2016 we issued bonds of an aggregate principal amount of €150 million which are listed on the Irish Stock Exchange.

These sources of funding have allowed us to refinance our securities portfolio, increase our funding at lower costs and purchase higher volumes of receivables in the context of our non-recourse factoring business.

Furthermore, our conversion into a bank has also allowed to adopt certain measures for the purpose of, *inter alia*, further enhancing our liquidity ratios and strengthening our regulatory capital structure. In particular, on March 2, 2017, we issued a series of €100.0 million fixed rate reset callable subordinated Tier 2 notes due 2027, which are listed on the Irish Stock Exchange and qualify as Tier 2 instruments to be included in the Tier 2 Capital of the Company for regulatory capital purposes. See "*Business—Capital Ratios*" and "*Business—Funding—€100.0 Million Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2027*".

Internationalization

In recent years we have expanded our business into Spain and Portugal and, during the course of 2016, into Poland, Slovakia and the Czech Republic.

Since 2011, in order to respond to the needs of certain multinationals forming part of our client base in Italy, through our Spanish subsidiary Farmafactoring España S.A., in Spain we have carried out the management and non-recourse factoring of receivables owed by Spanish national healthcare system entities and the Spanish public administration. In 2016, we acquired non-recourse factoring receivables amounting to €346 million, compared to €450 million in 2015 and €311 million in 2014. Our non-recourse factoring business in Spain contributed €9,265 thousand to our operating income in 2016, compared to €15,041 thousand in 2015, and €5,203 thousand in 2014.

Since 2014, the Group has also carried out, on a cross-border basis, the non-recourse factoring business in the Portuguese market. In 2016, the Group acquired non-recourse factoring receivables amounting to €51 million, compared to €55 million and €29 million acquired in 2015 and 2014, respectively. The non-recourse factoring business in Portugal contributed €2.3 million to the operating income of the Group in 2016, compared to €3.8 million and €0.8 million in 2015 and 2014, respectively. In addition, in 2015, after obtaining the authorization of the Banco de España, we established a branch in Madrid through which in August 2015 we launched the "*Cuenta Facto*" online term deposit account in Spain.

Furthermore, in March 2016, we filed an application with the Bank of Italy in order to offer banking services in Germany under the freedom to provide services and, having received no objection from them in this regard, in June 2016 we launched the collection of online term deposits in Germany by using our branch in Spain to provide "*Cuenta Facto*" on the German market through the online platform *Weltsparen.de*, which allows German customers to access online term deposit accounts offered by foreign banks not established in Germany.

From a strategic standpoint, with the acquisition of Magellan, a company which operates in the factoring business and specialized in the management and purchase of receivables towards the public administration, we expanded our business to Poland, Slovakia and Czech Republic. As of December 31, 2015, the dimension of these markets in terms of public spending on goods and services was equal to €25 billion, €10 billion and €5 billion for Poland, Slovakia and Czech Republic, respectively (*Source*: *Eurostat*).

Magellan Acquisition

On June 3, 2016, we completed the Magellan Acquisition. This transaction may affect the comparability of our December 31, 2015 and 2016 results of operations and, therefore, our figures as of December 31, 2015 may not be completely comparable with our recorded revenue, general and administrative costs and financial operations as of December 31, 2016. In particular, the consolidation of Magellan generated a contribution to the net interest margin of €12.5 million and a contribution to the net profit for the period amounting to a profit of €2.9 million. See "*Business—Subsidiaries—Magellan Acquisition*".

Split Payment Mechanism

The 2015 Budget Law introduced changes to the VAT regime applicable to transaction carried out by public entities, including debtors within the Italian national healthcare system and the public administration, referred to as the Split Payment Mechanism. Pursuant to such mechanism, VAT on certain sales of goods and the provision of services to public entities by suppliers will be paid by public entities and not by suppliers, as required under the previously applicable legislation. Therefore, payment of VAT will be made to the tax authorities directly by public entities, while payment of the taxable amount will be made by suppliers.

The Split Payment Mechanism was authorized by the European Commission effective from January 1, 2015 and will be applicable until December 31, 2017. By that date, adequate controls should have been developed based on the data acquired through electronic invoicing. In this respect, the Italian government through the Ministry of Finance has recently applied for the extension of said measure to 2020. In connection with this request, the Ministry also requested that the European Commission verify whether it is possible to extend the application of the Split Payment Mechanism to operations and entities not previously included in this regime (which was previously restricted to purchases made by public administrations). As a result of the application of Split Payment Mechanism, the Group's like for like volumes of receivables *vis-à-vis* the public administration and the national healthcare system decreased by 15% in 2015 as compared to 2014; such decrease was equal to the average VAT on transferred portfolios.

Net of the effect of the Split Payment Mechanism and assuming an average VAT equal to 15%, receivables purchased in Italy in 2015 increased by 32% compared to 2014.

Results of operations

Results of Operations for the years ended December 31, 2016 and 2015

The following table sets forth our summary financial information for each of the indicated periods.

	For the year end December 31,		Change	%
	2016	2015	2016 vs 2015	
	(in € thousands)			
Net interest margin	159,205	133,048	26,157	19.7%
Net fees and commissions	3,355	7,943	(4,588)	(57.8)%
Dividends and similar income	60	—	60	0.0%
Gains/losses on trading	682	46	636	n.s.
Fair value adjustments in hedge accounting	(1)	(23)	22	(95.7)%
Gains/losses on disposal/repurchase of available-for-sale financial assets	706	872	(166)	(19.0)%
Operating income	164,007	141,886	22,121	15.6%
Impairment losses/reversals on receivables and available-for-sale financial assets	2,244	(1,126)	(1,118)	99.3%
Net profit	**161,763**	**140,760**	**21,003**	**14.9%**
Administrative expenses:				
a) personnel costs	(24,924)	(18,476)	(6,448)	34.9%
b) other administrative expenses	(38,718)	(27,091)	(11,627)	42.9%
Net provisions for risks and charges	(2,075)	(879)	(1,196)	136.1%
Net adjustments to/writebacks on property, plant and equipment	(1,282)	(1,115)	(167)	15.0%
Net adjustments to/writebacks on intangible assets	(1,334)	(1,023)	(311)	30.4%
Other operating income/expenses	5,704	4,144	1,560	37.6%
Operating costs	(62,629)	(44,440)	(18,189)	40.9%
Profit before tax from continuing operations	**99,134**	**96,320**	**2,814**	**2.9%**
Income taxes on profit from continuing operations	**(26,997)**	**(27,529)**	**532**	**(1.9)%**
Profit for the year	**72,137**	**68,791**	**3,346**	**4.9%**

Net interest margin

Net interest margin (which for the year ended December 31, 2016 represents 97.1% of our operating income) increased by 19.7% to €159,205 thousand for the year end December 31, 2016 from €133,048 thousand for the year ended December 31, 2015. This increase was primarily due to the increase in interest income due from the relevant debtors equal to €28,279 thousand, due to, *inter alia*, the increase of the Group's receivables.

In particular, the increase of €30,186 thousand in interest income from customers as of December 31, 2016 is mainly due to the €21,387 thousand from the Magellan Group, with the remaining increase a result of the changes in interest rates in the financial markets. Such effects have been offset in part by the negative trend registered by the Group in Spain (€3,699 thousand) and Portugal (€1,722 thousand), largely due to the reduced outstanding amount in the two countries.

The interest margin of the Group also includes the costs deriving from the financing used in relation to the Magellan Acquisition, equal to €1,951 thousand (and excluding which, our net interest margin would have amounted to €161,156 thousand). Disregarding the impact of the Magellan Acquisition (and excluding the costs deriving from the financing used in relation to the Magellan Acquisition, equal to €1,951 thousand), our net interest margin increased by 11.7% to €148,663 thousand for the year end December 31, 2016 from €133,048 thousand for the year ended December 31, 2015, primarily due to the joint effect of the increase interest income and the decrease in interest liabilities.

Late payment income collected for the Group excluding Magellan was equal to €92,319 thousand as of December 31, 2016, an increase from the €66,362 thousand registered as of December 31, 2015. Interest income and similar revenues increased by 17.5% to €190,225 thousand for the year ended December 31, 2016 from €161,946 thousand for the year ended December 31, 2015.

The following table sets forth our interest expense and similar expenses for each of the indicated periods.

	For the year ended December 31,		Change	%
	2016	2015	2016 vs 2015	
	(in € thousands)			
Due to central banks	14	114	100	87.7%
Due to banks	6,550	7,574	(1,024)	(13.5)%
Due to customers	8,426	11,850	(3,424)	(28.9)%
Securities issued	15,099	9,300	5,799	62.4%
Financial liabilities held for trading	930	60	870	n.s.
Other liabilities and provisions	1	—	1	100.0%
Total interest expenses and similar expenses	**31,020**	**28,898**	**2,122**	**7.3%**

Although interest due to banks decreased by 13.5% (from €7,574 thousand for the year ended December 31, 2015 to €6,550 thousand for the year ended December 31, 2016), interest expenses increased by 7.3% to €31,020 thousand for the year ended December 31, 2016 from €28,898 thousand for the year ended December 31, 2015.

Overall, the improvement of the Group's results for 2016 compared to 2015 is closely linked to the increase in interest income, the reduction in the cost of funding and an accurate management of costs, excluding non recurring costs.

Net fees and commissions

Net fees and commissions (which for the year ended December 31, 2016 represented 2% of our operating income) decreased by 57.8% to €3,355 thousand for the year ended December 31, 2016 from €7,943 thousand for the year ended December 31, 2015. This decrease was due to (i) commission expenses of €4,032 thousand, of which €3,393 thousand was due to the computation of the fees paid in order to secure waivers for the agreements relating to debt instruments issued by the Company and Magellan; and (ii) a decrease in management fee income equal to €556 thousand, principally due to commercial policies implemented with regard to certain customers for strategic purposes.

In particular, fees and commission income decreased by 6.6%, dropping to €7,833 thousand for the year ended December 31, 2016 from €8,389 thousand for the year ended December 31, 2015. Disregarding the impact of the Magellan Acquisition, our net fees and commissions decreased by 41.6% to €4,638 thousand for the year end December 31, 2016 from €7,943 thousand for the year ended December 31, 2015. This decrease is mainly due to commercial policies implemented with regard to certain customers for strategic purposes.

Fee and commission expenses greatly increased to €4,478 thousand for the year ended December 31, 2016 from €446 thousand for the year ended December 31, 2015. This increase was primarily due to the computation of the fees paid in order to secure waivers for the agreements relating to debt instruments issued by the Company and Magellan for an amount equal to €3,393 thousand. See "*Business—Funding—Magellan Bond Programs*".

Gains/losses on trading

Gains/losses on trading increased to €682 thousand for the year ended December 31, 2016 from €46 thousand for the year ended December 31, 2015, mainly due to the revaluation of the financing received in Polish Zloty, recorded among the items under "due to banks", given the favorable exchange rate movement. Disregarding the impact of the Magellan Acquisition, our gains/losses on trading increased by €444 thousand, to €490 thousand for the year ended December 31, 2016 from €46 thousand for the year ended December 31, 2015.

Fair value adjustments in hedge accounting

We had €1 thousand net fair value adjustments in hedge accounting for the year ended December 31, 2016, compared to an amount of €23 thousand recorded for the year ended December 31, 2015. Disregarding the impact of the Magellan Acquisition, our fair value adjustments in hedge accounting increased to €1 thousand (negative) for the year end December 31, 2016 from €23 thousand (negative) for the year ended December 31, 2015.

Gains/losses on disposal/repurchase of available-for-sale financial assets

Gains/losses on disposal/repurchase of available-for-sale financial assets (which for the year ended December 31, 2016 represented approximately 0.4% of our operating income) decreased by 19% to €706 thousand for the year ended December 31, 2016 from €872 thousand for the year ended December 31, 2015. This mainly relates to the profit which was generated from the sale of the Italian government bonds registered in our AFS portfolio for a nominal amount equal to €554 million. The Magellan Acquisition had no impact on this line item.

Operating income

Our operating income increased by 15.6% to €164,007 thousand for the year ended December 31, 2016 from €141,886 thousand for the year ended December 31, 2015. Disregarding the impact of the Magellan Acquisition, and excluding the costs deriving from the financing used in relation to the Magellan Acquisition, equal to €1,951 thousand, our operating income increased by 8.9% to €154,496 thousand for the year end December 31, 2016 from €141,886 thousand for the year ended December 31, 2015, primarily due to the increase in interest income described above.

Impairment losses/reversals on receivables and available-for-sale financial assets

Reversals of impairment losses on receivables and available-for-sale financial assets totaled €2,244 thousand for the year ended December 31, 2016, compared to impairment losses on receivables and available-for-sale financial assets of €1,126 thousand recorded in the year ended December 31, 2015. This increase was due to the contribution of Magellan for the year 2016. Disregarding the impact of the Magellan Acquisition, our impairment losses on receivables and available-for-sale financial assets decreased to €977 thousand for the year ended December 31, 2016.

Net profit from financial activities

Net profit from financial activities increased by 14.9% to €161,763 thousand for the year ended December 31, 2016 from €140,760 thousand for the year ended December 31, 2015. Disregarding the impact of the Magellan Acquisition, our net profit from financial activities increased by 7.6% to €151,504 thousand for the year ended December 31, 2016 from €140,760 thousand for the year ended December 31, 2015.

Personnel costs

The following table sets forth our personnel costs for each of the indicated periods.

	For the years ended December 31,		2016 vs 2015	
	2016	**2015**	**Change**	**%**
	(in € thousands)			
Employees				
Wages and salaries	16,528	11,711	4,817	41.1%
Social security charges	4,173	3,163	1,010	31.9%
Provision for employee severance indemnity	417	322	95	29.5%
Provision for pension and similar obligations: defined contribution	162	157	5	3.2%
Payments to external supplementary benefit plans	—	—	—	—
Other benefits to employees	1,385	1,093	292	26.7%
Other employees in service	432	304	128	42.1%
Directors and statutory auditors	1,827	1,726	101	5.9%
Total personnel costs	**24,924**	**18,476**	**6,448**	**34.9%**

Personnel costs increased by 34.9% to €24,924 thousand for the year ended December 31, 2016 from €18,476 thousand for the year ended December 31, 2015. An amount of this increase, equal to €3,185 thousand, was due to the Magellan Acquisition and the remaining part was due to the increase in employed personnel for the purpose of sustaining our business expansion strategy, as well as to the increase in the provisions for employee bonuses in light of positive business results. Disregarding the impact of the Magellan Acquisition, our personnel costs increased by 17.7% to €21,739 thousand for the year end December 31, 2016 from €18,476 thousand for the year ended December 31, 2015.

The average number of employees for the year ended December 31, 2016 was 372 (including executives, supervisors and remaining staff) compared to 183 for the year ended, 2015.

Other administrative expenses

The following table sets forth our other administrative expenses for each of the indicated periods.

	For the year ended December 31,		2016 vs 2015	
	2016	**2015**	**Change**	**%**
	(in € thousands)			
Legal fees	2,193	3,172	(979)	(30.9)%
Data processing costs	2,202	2,061	141	6.8%
External receivables management services	1,330	1,248	82	6.6%
Compensation to Supervisory Body	42	51	(9)	(17.6)%
Legal fees for receivables under management	956	815	141	17.3%
Notary fees	695	574	121	21.1%
Notary fees to be recovered	277	188	89	47.3%
Corporate hospitality and donations	1,126	859	267	31.1%
Maintenance expenses	1,167	802	365	45.5%
Non-deductible VAT	4,108	3,081	1,027	33.3%
Other indirect taxes and duties	1,863	889	974	109.6%
Consulting fees	12,285	6,041	6,244	103.4%
Office operating costs	1,332	1,364	(32)	(2.3)%
Resolution Fund and FITD	3,823	1,603	2,220	138.5%
Other expenses	5,319	4,343	976	22.5%
Total other administrative expenses	**38,718**	**27,091**	**11,627**	**42.9%**

Other administrative expenses increased by 42.9% to €38,718 thousand for the year ended December 31, 2016 from €27,091 thousand for the year ended, 2015. In particular, these expenses represented 24.3% and 20.4% of our net interest margin for 2016 and 2015, respectively.

Consulting fees increased by 103.4% to €12,285 thousand for the year ended December 31, 2016 from €6,041 thousand for the year ended December 31, 2015, mainly due to (i) the IPO process concerning the Company; (ii) the costs incurred in obtaining the waivers for debt instruments issued by the Company and Magellan; and (iii) the costs of integrating and acquiring Magellan.

Our contributions to the Resolution Fund and the FITD amounted to €3,823 thousand for the year ended, 2016, compared to €1,603 thousand in contributions made for the year ended, 2015.

Disregarding the impact of the Magellan Acquisition, our other administrative expenses increased by 30.0% to €35,209 thousand for the year end December 31, 2016 from €27,091 thousand for the year ended December 31, 2015, primarily due to the incurrence of non-recurring administrative expenses amounting to €10.5 million (excluding Magellan).

Net provisions for risks and charges

Net provisions for risks and charges increased by 136.1% to €2,075 thousand for the year ended December 31, 2016 from €879 thousand for the year ended December 31, 2015, due to: (i) the non-compete undertakings provided under the CEO Agreement (originally entered into on November 28, 2013 and subsequently amended), entailing a provision for an amount equal to €335 thousand for the year ended December 31, 2015, and €1,099 thousand year ended December 31, 2016, and (ii) for the remaining part, the increase in personnel incentives connected to both the business results and the increase in the number of employees.

Net adjustments to/writebacks on property, plant and equipment

Net adjustments to/writebacks on property, plant and equipment increased by 15% to €1,282 thousand for the year ended December 31, 2016 from €1,115 thousand for the year ended December 31, 2015, primarily due to the Magellan Acquisition. Disregarding the impact of the Magellan Acquisition, our net adjustments to/writebacks on property, plant and equipment remained relatively stable, decreasing by 0.9% to €1,125 thousand for the year end December 31, 2016 from €1,115 thousand for the year ended December 31, 2015.

Net adjustments to/writebacks on intangible assets

Net adjustments to/writebacks on intangible assets increased by 30.4% to €1,334 thousand for the year ended December 31, 2016 from €1,023 thousand for the year ended December 31, 2015. Disregarding the impact of the Magellan Acquisition, our net adjustments to/writebacks on intangible assets increased by 28.8% to €1,318 thousand for the year end December 31, 2016 from €1,023 thousand for the year ended December 31, 2015.

Other operating income/expenses

The following table sets forth our other operating income/expenses for each of the indicated periods.

	For the year ended December 31,		Change	%
	2016	2015	2016 vs 2015	
	(in € thousands)			
Other operating expenses				
Contingent liabilities	—	—	0.0%	0.0%
Rounding down allowances	(88)	(65)	(23)	35.4%
Other expenses	(1,578)	(3)	(1,575)	n.s.
Expenses for guarantee funds	—	—	0.0%	0.0%
Total other expenses	**(1,666)**	**(68)**	**(1,598)**	**n.s.**
Other operating income				
Recovery of legal fees for purchases of non-recourse receivables	2,160	1,256	904	72.0%
Recovery of legal fees for management of receivables	461	746	(285)	(38.2)%
Receivables realized at other than face value	2	0	2	100%
Prior year items	2,101	903	1,198	132.7%
Recovery of notary expenses from assignors	214	188	26	13.8%
Other income/expenses	2,432	1,119	1,313	117.3%
Total other operating income	**7,370**	**4,212**	**3,158**	**75.0%**

Other total operating income increased by 75.0%, to €7,370 thousand for the year ended December 31, 2016 from €4,212 thousand for the year ended December 31, 2015. Disregarding the impact of the Magellan Acquisition, our other operating income increased to €5,443 thousand for the year end December 31, 2016.

Operating costs

Operating costs increased by 40.9% to €62,629 thousand for the year ended December 31, 2016 from €44,440 thousand for the year ended December 31, 2015. Disregarding the impact of the Magellan Acquisition, our operating costs increased by 26.1% to €56,023 thousand for the year end December 31, 2016 from €44,440 thousand for the year ended December 31, 2015, primarily due to the increase in both personnel costs and other administrative expenses.

Profit before tax from continuing operations

Profit before tax from continuing operations increased by 2.9% to €99,134 thousand for the year ended December 31, 2016 from €96,320 thousand for the year ended, 2015. Disregarding the impact of the Magellan Acquisition, our profit before tax from continuing operations decreased by 0.9% to €95,481 thousand for the year end December 31, 2016 from €96,320 thousand for the year ended December 31, 2015.

Income taxes on profit from continuing operations

Income taxes on profit from continuing operations decreased by 1.9% to €26,997 thousand for the year ended December 31, 2016 from €27,529 thousand for the year ended December 31, 2015. This decrease was primarily due to a decrease in current taxes applicable for the period. Our effective tax rate for the year ended December 31, 2016 was 27.2%. Disregarding the impact of the Magellan Acquisition, our income taxes on profit from continuing operations decreased by 4.8% to €26,210 thousand for the year end December 31, 2016 from €27,529 thousand for the year ended December 31, 2015.

Profit for the year

Profit for the year increased by 4.9% to €72,137 thousand for year ended December 31, 2016 from €68,791 thousand for year ended December 31, 2015. Disregarding the impact of the Magellan Acquisition, our profit for the year *increased* by 0.7% to €69.271 thousand for the year end December 31, 2016 from €68.791 thousand for the year ended December 31, 2015.

The adjusted aggregate profit for the year ended December 31, 2016, consisting of the sum of the twelve month-profit of the Group (excluding Magellan) and the twelve month-profit of Magellan, adjusted to not take into account non-recurring costs, amounts to €87.569 thousand.

Results of Operations for the years ended December 31, 2015 and December 31, 2014

The following table sets forth our summary financial information for each of the indicated periods.

	For the years ended December 31,		Change	%
	2015	2014	2015 vs 2014	
	(in € thousands)			
Net interest margin	133,048	208,311	(75,263)	(36.1)%
Net fees and commissions	7,943	8,239	(296)	(3.6)%
Gains/losses on trading	46	497	(451)	(90.7)%
Fair value adjustments in hedge accounting	(23)	(7)	(16)	228.6%
Gains/losses on disposal/repurchase of available-for-sale financial assets	872	953	(81)	(8.5)%
Operating income	141,886	217,993	(76,107)	(34.9)%
Impairment losses/reversals on loans and receivables	(1,126)	43	(1,169)	n.s.
Net profit from financial activities	**140,760**	**218,036**	**(77,276)**	**(35.4)%**
Administrative expenses:				
a) personnel costs	(18,476)	(14,828)	(3,648)	24.6%
b) other administrative expenses	(27,091)	(21,126)	(5,965)	28.2%
Net provisions for risks and charges	(879)	(1,280)	401	(31.3)%
Net adjustments to/writebacks on property, plant and equipment	(1,115)	(1,053)	(62)	5.9%
Net adjustments to/writebacks on intangible assets	(1,023)	(689)	(334)	48.5%
Other operating income/expenses	4,144	7,032	(2,888)	(41.1)%
Operating costs	(44,440)	(31,944)	(12,496)	39.1%
Profit before tax from continuing operations	**96,320**	**186,092**	**(89,772)**	**(48.2)%**
Income taxes on profit from continuing operations	**(27,529)**	**(61,714)**	**34,185**	**(55.4)%**
Profit for the year	**68,791**	**124,378**	**(55,587)**	**(44.7)%**

Net interest margin

Net interest margin (which for the year ended December 31, 2015 represented 94% of our operating income) decreased by 36.1% to €133,048 thousand for the year ended December 31, 2015 from €208,311 thousand for the year ended December 31, 2014. This decrease was primarily due to the change in the method used to calculate the recoverability of late payment interest.

If the change in the method used to calculate the recoverability of late payment interest had been applied from December 31, 2011, our net interest margin for the year ended December 31, 2014 would have amounted to €107,729 thousand instead. Therefore, the normalized amount would have shown an increase of €25,319 thousand from the year ended December 31, 2014 to the year ended December 31, 2015, due to the increase in interest income and similar revenues and the decrease in interest expense and similar expenses.

The following table sets forth our interest income and similar revenues for each of the indicated periods.

	For the years ended December 31,		Change	%
	2015	2014	2015 vs 2014	
	(in € thousands)			
Available-for-sale financial assets	1,322	941	381	40.5%
Held-to-maturity financial assets	4,526	3,118	1,408	45.2%
Due from banks	144	987	(843)	(85.4)%
Due from customers	155,952	247,505	(91,553)	(37)%
Other assets	2	—	2	—
Total interest income and similar revenues	**161,946**	**252,551**	**(90,605)**	**(35.9)%**

Interest income and similar revenues decreased by 35.9% to €161,946 thousand for the year ended December 31, 2015 from €252,551 thousand for the year ended December 31, 2014 due to the change in the method used to calculate the recoverability of late payment interest, which primarily is evidenced through the change in interest due from customers. The normalized amount for the year ended December 31, 2014 is equal to €151,969 thousand, showing an increase of €9,977 thousand from the year ended December 31, 2014 to the year ended December 31, 2015 due to the higher volumes of receivables purchased as part of our non-recourse factoring business.

The following table sets forth our interest expense and similar expenses for each of the indicated periods.

	For the years ended December 31,		Change	%
	2015	2014	2015 vs 2014	
	(in € thousands)			
Due to central banks	114	223	(109)	(48.9)%
Due to banks	7,574	24,398	(16,824)	(69.0)%
Due to customers	11,850	14,012	(2.162)	(15.4)%
Securities issued	9,300	5,110	4,190	82.0%
Financial liabilities held for trading	60	461	(401)	(87.0)%
Other liabilities and provisions	—	36	(36)	—
Total interest expenses and similar expenses	**28,898**	**44,240**	**(15,342)**	**(34.7)%**

Interest expenses decreased by 34.7% to €28,898 thousand for the year ended December 31, 2015 from €44,240 thousand for the year ended December 31, 2014. The decrease in interest expenses was primarily due to the decrease in interest due to banks, which was not entirely offset by a decrease in issued securities.

Interest due to banks decreased by 69.0% to €7,574 thousand for the year ended December 31, 2015 from €24,398 thousand for the year ended December 31, 2014, mainly due to the reduced cost of borrowing, the renegotiation of certain lines of credit and the diversification of sources of funding.

Net fees and commissions

Net fees and commissions (which for the year ended December 31, 2015 represented 5.6% of our operating income) decreased by 3.6% to €7,943 thousand for the year ended December 31, 2015 from €8,239 thousand for the year ended December 31, 2014.

Fee and commission income decreased 11.2% to €8,389 thousand for the year ended December 31, 2015 from €9,444 thousand for the year ended December 31, 2014, mainly due to certain commercial decisions made by us in respect of our strategic customers.

Fee and commission expenses increased by 63.0% to an amount of €446 thousand for the year ended December 31, 2015 from an amount of €1,205 thousand for the year ended December 31, 2014, mainly due to the termination of certain syndicated loans.

Gains/losses on trading

Gains on trading amounted to decreased by 90.7% to €46 thousand for the year ended December 31, 2015 from €497 thousand for the year ended December 31, 2014, mainly due to the variation of the fair value of our derivative contracts.

Fair value adjustments in hedge accounting

Fair value adjustments in hedge accounting amounted to an amount of €23 thousand for the year ended December 31, 2015, compared to an amount of €7 thousand recorded for the year ended December 31, 2014.

Gains/losses on disposal/repurchase of available-for-sale financial assets

Gains/losses on disposal/repurchase of available-for-sale financial assets (which for the year ended December 31, 2015 represented 0.6% of our operating income) decreased by 8.5% to €872 thousand for the year ended December 31, 2015 from €953 thousand for the year ended December 31, 2014, largely due to gains on the sale of Italian government securities held in our AFS portfolio for a nominal value of, respectively, €552 million and €80 million.

As of December 31, 2015 the gains on disposal/repurchase of available-for-sale financial assets amounted to 0.7% and 0.6% of net interest margin and operating income respectively (compared to 0.5% and 0.4%, respectively, as of December 31, 2014).

Operating income

Our operating income decreased by 34.9% to €141,886 thousand for the year ended December 31, 2015 from €217,993 thousand for the year ended December 31, 2014. This decrease was primarily due to the change in the method used to calculate the recoverability of late payment interest.

If the change in the method used to calculate the recoverability of late payment interest had been applied from December 31, 2011, our operating income for the year ended December 31, 2014 would have amounted to €117,411 thousand instead. Therefore, the normalized amount would have shown an increase of €24,475 thousand from the year ended December 31, 2014 to the year ended December 31, 2015.

Impairment losses/reversals on loans and receivables

Impairment losses on loans and receivables totaled to an amount of €1,126 thousand for the year ended December 31, 2015, which were largely attributable to the collective impairment test of performing loans and receivables, following the increase in outstanding receivables, compared to impairment reversals on loans and receivables of €43 thousand recorded in the year ended December 31, 2014.

Net profit from financial activities

Net profit from financial activities decreased by 35.4% to €140,760 thousand for the year ended December 31, 2015 from €218,036 thousand for the year ended December 31, 2014. This decrease was primarily due to the change in the method used to calculate the recoverability of late payment interest.

Personnel costs

The following table sets forth our personnel costs for each of the indicated periods.

	For the years ended December 31,		Change	%
	2015	2014	2015 vs 2014	
	(in € thousands)			
Employees	**16,446**	**12,956**	**3,490**	**26.9%**
Wages and salaries	11,711	9,285	2,426	26.1%
Social security charges	3,163	2,472	691	28.0%
Provision for employee severance indemnity	322	274	48	17.5%
Provision for pension and similar obligations: defined contribution	—	98	(98)	(100.0)%
Payments to external supplementary pension funds: defined contribution	157	—	157	100.0%
Other benefits to employees	1,093	827	266	32.2%
Other employees in service	**304**	**75**	**229**	**n.s.**
Directors and statutory auditors	**1,726**	**1,797**	**(71)**	**(4.0)%**
Total personnel costs	**18,476**	**14,828**	**3,648**	**24.6%**

Personnel costs increased by 24.6% to €18,476 thousand for the year ended December 31, 2015 from €14,828 thousand for the year ended December 31, 2014, mainly due to the increase in the number of employees as a result of which, *inter alia*, wages and salaries, social security charges and the cost of employee benefits increased.

The average number of employees for the year ended December 31, 2015 was 183 (including executives, supervisors and remaining staff) compared to 133 for the year ended December 31, 2014.

Other administrative expenses

The following table sets forth our other administrative expenses for each of the indicated periods.

	For the years ended December 31,		Change	%
	2015	**2014**	**2015 vs 2014**	
	(in € thousands)			
Legal fees	3,172	4,444	(1,272)	(28.6)%
Data processing costs	2,061	1,498	563	37.6%
External receivables management services	1,248	990	258	26.1%
Compensation to Supervisory Body	51	129	(78)	(60.5)%
Legal fees for receivables under management	815	1,026	(211)	(20.6)%
Notary fees	574	387	187	48.3%
Notary fees to be recovered	188	67	121	180.6%
Corporate hospitality and donations	859	775	84	10.8%
Maintenance expenses	802	728	74	10.2%
Non deductible VAT	3,081	2,194	887	40.4%
Other indirect taxes and duties	889	239	650	n.s.
Consulting fees	6,041	3,966	2,075	52.3%
Office operating costs	1,364	959	405	42.2%
Resolution Fund and FITD	1,603	n.a.	1,603	n.a.
Other expenses	4,343	3,724	619	16.6%
Total other administrative expenses	**27,091**	**21,126**	**5,965**	**28.2%**

Other administrative expenses increased by 28.2% to €27,091 thousand for the year ended December 31, 2015 from €21,126 thousand for the year ended December 31, 2014, mainly due to the increase in consulting fees and contributions made to the Resolution Fund and the FITD (*Fondo Interbancario di Tutela dei Depositi*).

Consulting fees increased by 52.3% to €6,041 thousand for the year ended December 31, 2015 from €3,966 thousand for the year ended December 31, 2014, mainly due to the expenses incurred in connection with the aborted IPO process, which approximately amounts to €1,636 thousand, the change to our shareholder structure and certain acquisitions completed during 2015.

Our contributions to the Resolution Fund and the FITD amounted to €1,603 thousand for the year ended December 31, 2015, compared to €0 for the year ended December 31, 2014.

Net provisions for risks and charges

Net provisions for risks and charges decreased by 31.3% to €879 thousand for the year ended December 31, 2015 from €1,280 thousand for the year ended December 31, 2014, which was primarily attributable to non-compete arrangements with our employees.

Net adjustments to/writebacks on property, plant and equipment

Net adjustments to/writebacks on property, plant and equipment increased by 5.9% to €1,115 thousand for the year ended December 31, 2015 from €1,053 thousand for the year ended December 31, 2014. The change was primarily due to depreciation.

Net adjustments to/writebacks on intangible assets

Net adjustments to/writebacks on intangible assets increased by 48.5% to €1,023 thousand for the year ended December 31, 2015 from €689 thousand for the year ended December 31, 2014. The change was primarily due to investments in IT.

Other operating income/expenses

The following table sets forth our other operating income/expenses for each of the indicated periods.

	For the years ended December 31,		Change	%
	2015	2014	2015 vs 2014	
	(in € thousands)			
Other operating expenses				
Contingent liabilities	—	—	—	—
Rounding down allowances	(65)	(69)	4	(5.8)%
Other expenses	(3)	(13)	10	(76.9)%
Total other expenses	**(68)**	**(82)**	**14**	**(17.1)%**
Other operating income				
Recovery of legal fees for purchases of non-recourse receivables	1,256	1,771	(515)	(29.1)%
Recovery of legal fees for management of receivables	746	1,026	(280)	(27.3)%
Receivables realized at other than face value	—	3,483	(3,483)	—
Prior year items	903	339	564	166.4%
Recovery of notary expenses from assignors	188	68	120	176.5%
Other income	1,119	427	692	162.1%
Total other operating income	**4,212**	**7,114**	**(2,902)**	**(40.8)%**

Other operating income decreased by 40.8% to €4,212 thousand for the year ended December 31, 2015 from €7,114 thousand for the year ended December 31, 2014, mainly due to the cancellation of receivables realized at other than face value as a result of the reclassification of interest and other income.

Operating costs

Operating costs increased by 39.1% to €44,440 thousand for the year ended December 31, 2015 from €31,944 thousand for the year ended December 31, 2014.

Profit before tax from continuing operations

Profit before tax from continuing operations decreased by 48.2% to €96,320 thousand for the year ended December 31, 2015 from €186,092 thousand for the year ended December 31, 2014. This decrease was mainly due to the change in the method used to calculate the recoverability of late payment interest.

If the change in the method used to calculate the recoverability of late payment interest had been applied from December 31, 2011, our profit before tax from continuing operations for the year ended December 31, 2014 would have amounted to €85,597 thousand instead. Therefore, the normalized amount would have shown an increase of €10,723 thousand from the year ended December 31, 2014 to the year ended December 31, 2015.

Income taxes on profit from continuing operations

Income taxes on profit from continuing operations decreased by 55.4% to €27,529 thousand for the year ended December 31, 2015 from €61,714 thousand for the year ended December 31, 2014. This decrease was mainly due to the change in the method used to calculate the recoverability of late payment interest. Our effective tax rate in 2015 decreased to 28.6%, as compared to 33.2% for the year ended December 31, 2014.

Profit for the year

Profit for the year decreased by 44.7% to €68,791 thousand for the year ended December 31, 2015 from €124,378 thousand for the year ended December 31, 2014 due to the change in the method used to calculate the recoverability of late payment interest.

If the change in the method used to calculate the recoverability of late payment interest had been applied from December 31, 2011, our profit for the year ended December 31, 2014 would have amounted to €57,468 thousand instead. Therefore, the normalized amount would have shown an increase of €11,323 thousand from the year ended December 31, 2014 to the year ended December 31, 2015.

Liquidity and Capital Resources

Our working capital is sufficient in order to satisfy our current needs and we have the necessary liquidity to satisfy our maturing obligations, in each case, for a period of six and 12 months.

The tables below summarize the cash flow of the Group for the indicated periods. The large variation between the key line items set forth below reflects the significant change in volumes we managed in the relative time frames.

	For the years ended December 31,		2016 vs 2015
	2016	2015	Change
	(in € thousands)		
Operating activities			
Net cash flow from/used in management activities	78,391	72,932	5,459
Net cash flow from/used in financial assets	1,391,960	294,848	1,097,112
Net cash flow from/used in financial liabilities	1,407,938	273,324	1,134,614
Net cash flow from/used in operating activities	**94,369**	**51,408**	**42,961**
Investment activities			
Liquidity generated by:			
Dividends on shareholdings	60	—	60
Liquidity absorbed by purchase of:			
Shareholdings	(302)	—	(302)
HTM securities	—	—	—
Tangible assets	(892)	(1,084)	192
Intangible assets	(24,398)	(1,717)	(22,681)
Net cash flow from/used in investing activities	**(25,532)**	**(2,801)**	**(22,731)**
Financing activities			
Capital increase	—	—	—
Issue/purchase of securities	(83)	—	(83)
Dividend distribution and other activities	(68,765)	(48,450)	(20,315)
Net cash flow from/used in financing activities	**(68,848)**	**(48,450)**	**(20,398)**
Net liquidity from/used in investment activities	**(11)**	**157**	**(168)**

	For the years ended December 31,	
	2016	2015
	(in € thousands)	
Liquidity reconciliation		
Cash and cash equivalents at beginning of the period	160	3
Total net liquidity from/used during the period	(11)	157
Cash and available liquidity: impact on exchange rate variation	—	—
Cash and available liquidity at end of the period	**149**	**160**

Net cash flow from/used in operating activities

2016 vs 2015

Net cash flow from/used in management activities increased by €42,961 thousand from €51,408 thousand for the year ended December 31, 2015 to €94,369 thousand for the year ended December 31, 2016, mainly due to the greater amount of net liquidity generated by the management of financial activities, equal to €37,502 thousand. In particular, in the financial year closed December 31, 2016, financial activities absorbed more liquidity (€1,097,112 thousand), mainly due to the purchase of government bonds in order to face the liquidity risk, as well as to optimize the Group's cost of funding. During the course of 2016, financial liabilities produced a greater amount of liquidity equal to €1,134,614 thousand. This was mostly due to the increase in exposures concerning online term deposit accounts and the growth in repo transactions carried out in order to refinance the Group's securities portfolio.

2015 vs 2014

Net cash flow from/used in operating activities increased by €2,463 thousand from €48,945 thousand in 2014 to €51,408 thousand in 2015, mainly due to the combined effect of:

- The decrease in cash flow from operations from €127,015 thousand in 2014 to €72,932 thousand in 2015 attributable to both the lower financial results achieved and the change in the method used to calculate the recoverability of late payment interest.
- The decrease in cash flow used by financial assets and liabilities to €56,546 thousand in 2015 as a result of (i) the increase in our funding activities, including revolving credit facilities, open market operations with the ECB to refinance our government securities and with other financial institutions through repo transactions, as well as repo transactions with Cassa di Compensazione e Garanzia and market counterparties, and (ii) the higher volume of receivables under management.

Net cash flow from/used in investing activities

2016 vs 2015

Investment activities in 2016 absorbed a greater level of liquidity compared to 2015, increasing by €22,731 thousand passing from a negative cash flow of €2,801 thousand for the year ended December 31, 2015 to €25,532 thousand for the year ended December 31, 2016, mainly due to the liquidity used for Magellan's acquisition.

2015 vs 2014

Net cash flow from/used in investing activities decreased by €268 thousand from a negative cash flow of €2,533 thousand in 2014 to a negative cash flow of €2,801 thousand in 2015, due to investments made during the year.

Net cash flow from/used in financing activities

2016 vs 2015

Net cash flow from/used in financing activities decreased by €20,398 thousand from a negative cash flow of €48,450 thousand for the year ended December 31, 2015 to €68,848 thousand for the year ended December 31, 2016, mainly due to an increase in liquidity used to proceed in the distribution of dividends.

2015 vs 2014

Net cash flow from/used in financing activities decreased by €2,040 thousand from a negative cash flow of €46,410 thousand in 2014 to a negative cash flow of €48,450 thousand in 2015, due to the higher dividends paid in 2015.

Funding Sources

We obtain the financing necessary to operate our business through a variety of financing products, including (i) the wholesale market through which financial institutions provide us with funding through, *inter alia*, syndicated loans and bilateral loans, (ii) accessing the capital markets through loans and bond issues and (iii) since our transformation into a bank in July 2013, through direct deposits from our customers.

The table below reflects the breakdown of the funding sources of the Group, including own funds, as of December 31, 2016, 2015, and 2014.

	December 31, 2016	% of total	December 31, 2015	% of total	December 31, 2014	% of total	2016 vs 2015	2015 vs 2014
				(in € thousands)				
Funding Sources								
Syndicated loans(1)	—	—	109,810	4.0%	519,619	20.9%	(109,810)	(409,809)
Bilateral loans(1)	634,807	15.2%	372,266	13.6%	28,637	1.2%	262,541	343,629
Central banks	—	—	206,000	7.5%	420,000	16.9%	(206,000)	(214,000)
Other debts	—	—	5	0.0%	8	0.0%	(5)	(3)
Due to banks	**634,807**	**15.2%**	**688,081**	**25.1%**	**968,264**	**38.9%**	**(53,274)**	**(280,183)**
Securitization transactions	**85,000**	**2.0%**	**150,000**	**5.5%**	**166,650**	**6.7%**	**(65,000)**	**(16,650)**
Bond issues(2)	545,334	13.0%	300,000	10.9%	300,000	12.1%	245,334	—
Securities issued	**630,334**	**15.1%**	**450,000**	**16.4%**	**466,650**	**18.8%**	**180,334**	**(16,650)**
Repo transactions(3)	1,809,044	43.2%	920,471	33.6%	595,034	23.9%	888,573	325,437
Online term deposit accounts(3)	822,438	19.7%	416,652	15.2%	226,258	9.1%	405,786	190,394
Other financing(3)	288,653	6.9%	267,014	9.7%	231,946	9.3%	21,639	35,068
Total	**4,185,276**	**100.0%**	**2,742,218**	**100.0%**	**2,488,152**	**100.0%**	**1,443,058**	**254,066**
Net equity	**333,747**		**331,284**		**310,794**		**2,463**	**20,490**
Total financial resources	**4,519,023**		**3,073,502**		**2,798,946**		**1,445,521**	**274,556**

(1) As of December 31, 2016 bilateral lines include, for €80,508 thousand, a dedicated loan signed by the Company and Unicredit as part of the Magellan Acquisition.

(2) Nominal value.

(3) Such debts are classified under "*Due to customers*" in our balance sheet.

The following table provides an analysis of our funding sources (excluding the Group's own funds) as of December 31, 2016, based on the inclusion or exclusion of Magellan from the Group.

	Group excluding Magellan		Magellan Group		Group total as of December 31, 2016	
	Drawn amount	Nominal amount	Drawn amount	Nominal amount	Drawn amount	Nominal amount
			(in € thousands)			
Funding Sources						
Bilateral loans(1)	603,346	1,331,008	31,461	67,362	634,807	1,398,370
Other debts	—	—	—	—	—	—
Due to banks	**603,346**	**1,331,008**	**31,461**	**67,362**	**634,807**	**1,398,370**
Securitization transactions	85,000	85,000	—	—	85,000	85,000
Bond issues(2)	450,000	450,000	95,334	95,334	545,334	545,334
Securities issued	**535,000**	**535,000**	**95,334**	**95,334**	**630,334**	**630,334**
Repo transactions(3)	1,809,044	1,809,044	—	—	1,809,044	1,809,044
Online term deposit accounts(3)	822,438	822,438	—	—	822,438	822,438
Other financing(3)	231,790	330,000	56,863	56,685	288,653	386,685
Total	**4,001,618**	**4,827,490**	**183,658**	**219,381**	**4,185,276**	**5,046,871**

(1) As of December 31, 2016 bilateral loans include, for €80,508 thousand, a dedicated loan signed by the Company and Unicredit as part of the Magellan Acquisition. This loan is denominated in Zloty and will expire on May 31, 2019. The loan will be fully repaid on the maturity date, with an interest rate equal to Wibor three months plus 1.50%. Due to the interest rate swap agreement entered into on July 1, 2016, which allows the Company to receive the Wibor rate for 3 months and pay a fixed rate of 1.618%, the effective price paid by the Group has become a fixed rate equal to 3.118%. As well as the fixed rate, the Issue has to pay a structuring fee up front to obtain the loan equal to 150 bps calculated in Euro of the loan disbursed.

(2) Nominal value.

(3) Such debts are classified under "Due to customers" in our balance sheet.

The following chart shows the distribution of our funding sources (excluding the Group's own funds) as of December 31, 2016, by residual contractual maturity.

	On demand	Within 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 12 months and 5 years[(4)]	Over 5 years	Total as of December 31, 2016
				(in € thousands)			
Funding Sources							
Syndicated loans	—	—	—	—	—	—	—
Bilateral loans[(1)]	—	78,359	76,113	264,508	215,827	—	634,807
Central banks	—	—	—	—	—	—	—
Other debts	—	—	—	—	—	—	—
Due to banks	**—**	**78,359**	**76,113**	**264,508**	**215,827**	**—**	**634,807**
Securitization transactions	**—**	**—**	**—**	**85,000**	**—**	**—**	**85,000**
Bond issues[(2)]	—	9,725	326,960	24,297	184,352	—	545,334
Securities issued	**—**	**9,725**	**326,960**	**109,297**	**184,352**	**—**	**630,334**
Repo transactions[(3)]	—	1,363,313	175,218	270,513	—	—	1,809,044
Online term deposit accounts (*Conto Facto* and *Cuenta Facto*)[(3)]	31,544	227,437	159,514	246,112	157,831	—	822,438
Other financing[(3)]	—	—	119,320	—	169,333		288,653
Total	**31,544**	**1,678,834**	**857,125**	**890,430**	**727,343**	**—**	**4,185,276**

(1) As of December 31, 2016 bilateral loans include, for €80,508 thousand, a dedicated loan signed by the Company and Unicredit as part of the Magellan Acquisition. This loan is denominated in Zloty and will expire on May 31, 2019. The loan will be fully repaid on the maturity date, with an interest rate equal to Wibor three months plus 1.50%. Due to the interest rate swap agreement entered into on July 1, 2016, which allows the Company to receive the Wibor rate for 3 months and pay a fixed rate of 1.618%, the effective price paid by the Group has become a fixed rate equal to 3.118%. As well as the fixed rate, the Issue has to pay a structuring fee up front to obtain the loan equal to 150 bps calculated in Euro of the loan disbursed.

(2) Nominal value.

(3) Such debts are classified under "Due to customers" in our balance sheet.

(4) The amount of our funding sources includes a nominal amount of € 332 thousand connected to funding source with termination between 12 and 24 months.

Due to banks

Our funding from banks decreased from €968,264 thousand as of December 31, 2014 to €688,081 thousand as of December 31, 2015, principally due to the termination of certain syndicated loans. The year 2016 showed a further decrease in funding from banks, falling from €688,081 thousand as of December 31, 2015 to €634,807 thousand as of December 31, 2016.

In particular, our bilateral loans increased from €28,637 thousand as of December 31, 2014 to €372,266 thousand as of December 31, 2015, due to the implementation of a strategy aimed at optimizing and diversifying our funding structure and making it more flexible in order to support the increase in business volumes. As of December 31, 2016, our bilateral loans increased further, passing from €372,266 thousand to €634,807 thousand at December 31, 2016, due to the implementation of a strategy aimed at optimizing our funding structure.

As of December 31, 2016, the Group's bilateral loans, excluding Magellan, amounted to €603,346 thousand (including €80,508 thousand relating to the financing agreement entered into by the Company with UniCredit on May 27, 2016, within the context of the Magellan Acquisition).These sources of financing, used during the course of 2015 and 2016, have a five-year maturity, are denominated in Euro and the relative interest rate is capped at 1.8%. Furthermore, as of December 31, 2016, the bilateral loans of the Magellan Group amounted to €31,461 thousand. These lines of financing, entirely denominated in Polish Zloty, have a four-year maturity and are repaid at an interest rate which is capped at 5.8%.

Our funding from central banks decreased from €420,000 thousand as of December 31, 2014 to €206,000 thousand as of December 31, 2015, which was mainly attributable to the funding obtained via the Eurosystem used to refinance our securities portfolio. Our funding from central banks has subsequently been repaid.

In 2015, we repaid €197.5 million of our syndicated loans under a syndicated loan arranged by Gruppo UniCredit and €215 million under a syndicated loan arranged by Gruppo Intesa SanPaolo. As of

December 31, 2015 the only outstanding syndicated deal loan we had in place was a club deal loan arranged by Intesa SanPaolo for a total principal amount of €110 million, entered into in December 2014 for a duration of 18 months. On April 8, 2016 the abovementioned loan has been repaid as set forth in the loan agreement.

Securitization transactions

The value of our securitization transactions was €150 million as of December 31, 2015 and €85 million as of December 31, 2016. As of December 31, 2016, our only outstanding securitization transaction is the transaction structured by a member of the Deutsche Bank Group, which was renewed in August 2016. See "*Risk Management—Securitization transactions*"**.** The renewed structure, after an amortization period that ended on the note payment date of August 25, 2016 (which made it possible to reduce the amount of the securities issued from the original €150 million to the current €85 million), provides for a new revolving period valid until the note payment date of July 25, 2017, during which revolving sales will be made against collections of receivables to maintain the contractually stipulated collateralization ratio. At the end of the revolving period there will be an amortization period (which will last a maximum of 2.5 years) correlated to the performance of existing receivables collection during which the securities will be repaid.

The value of our securitization transactions decreased from €166,650 thousand as of December 31, 2014 to €150,000 thousand as of December 31, 2015. This decrease was due to the termination of the securitization transaction structured by Banca IMI in June 2011.

Bond issues

As of December 31, 2016 and December 31, 2015 and 2014, the nominal value of our bonds amounted to €545,334 thousand, €300,000 thousand and €300,000 thousand respectively, with a ratio of total financial resources and equity of 12.1%, 9.8% and 10.7% respectively.

As of December 31, 2016 these bonds consisted in €300 million from our 2014 issuance and €150 million from our 2016 issuance and €95.3 million from Magellan's bond issues.

In June 2014 we placed our first senior unsecured bond issue, which had an aggregate principal amount of €300 million, a fixed coupon of 2.75% and a maturity date on June 12, 2017. In June 2016 we placed a further senior unsecured bond issue, which had an aggregate principal amount of €150 million, a fixed coupon of 1.25% and a maturity date on June 21, 2021. Both bonds are listed on the Irish Stock Exchange.

As of December 31, 2016, the bonds issued by Magellan have a nominal value of approximately €95,334 thousand and refer to bonds issued mainly in Polish Zloty and partly in Euros in 2014, 2015 and 2016. They are all placed with institutional and retail investors and have a duration of less than five years. The medium-term issuances mainly have a variable rate, with a margin on WIBOR between 1.9% and 4.4%. Such securities were issued under one bond program with the maximum amount of up to PLN 750 million with mBank S.A. The bonds are listed on the Polish stock exchange for bonds ("*Catalyst*") and are unrated and unsecured.

On October 27, 2016, the waiver process proposed in relation to the bonds issued by Magellan was successfully completed and, concurrently, the waivers concerning the two bond issuances of the Company were provided by the relevant noteholders, in addition to the waivers given by the counterparties of certain financing agreements in favor of the Company for the purpose of avoiding the triggering of cross-default clauses set out in both the terms and conditions of the same bond issuances and financing agreements due to a relevant event of default in relation to the Group (as would have been the case with the delisting of Magellan).

Following the positive outcome of the waiver process, the Magellan delisting does not represent an event of default for any of Magellan's bond issuances or for any other financing of the Group.

Repo transactions

The value of our repo transactions increased from €920,471 thousand as of December 31, 2015 to €1,809,044 thousand as of December 31, 2016.

The value of our repo transactions increased from €595,034 thousand as of December 31, 2014 to €920,471 thousand as of December 31, 2015. The increase was mainly attributable to the repo transactions entered into on the MTS platform and through the "*sistema di compensazione e garanzia*" with Cassa di Compensazione e Garanzia S.p.A. and London Clearing House.

The DBRS rating downgrade of the Italian sovereign debt will not significantly impact the Group's liquidity risk as we, in order to refinance our securities portfolio, mainly make use of repo transactions via the MTS platform, which does not take the DBRS rating of the Republic of Italy into consideration (even though we could increase our use of the ASTE OMA platform).

The impact of the repurchase transactions on the Group's total finances is due to refinancing state-held securities. Although the repurchasing business developed by the Group is highly efficient, the effect is only evident in the borrowing cost and the management of the Company's treasury. In general, refinancing state-held securities doesn't carry any added risk to the Group's liquidity due to the full allotment guarantee available from ECB. The direct cost of collection on the Group's finances is relatively marginal even if it continues to increase, thanks to the launch of the online term deposit accounts in 2014.

The following tables show our securities portfolio related to the repo transactions as of December 31, 2016 and December 31, 2015.

Description	**Nominal value as of December 31, 2016**
	(in € thousands)
BOT maturity 2017	455,000,000
BTP maturity 2016	955,500,000
CCT maturity 2016	180,000,000
CTZ maturity 2016	180,000,000
BOT maturity 2016	51,500,000
BTP maturity 2016	145,000,000
BTP maturity 2017	409,500,000
BTP maturity 2018	55,000,000
BTP maturity 2019	1,000,000
BTP maturity 2020	1,000,000
CCT maturity 2017	93,000,000
CTZ maturity 2016	76,000,000
CTZ maturity 2017	60,000,000

The repo transactions as of December 31, 2016 and December 31, 2015 took place only on the MTS regulated market.

The volumes of our repo transactions traded on electronic markets during 2015, and related to the short and medium-term transactions, amounted to approximately €33 billion, with an average duration of 10 days per transaction. The volumes of our repo transactions traded on electronic markets during 2016, and related to the short and medium-term transactions, amounted to approximately €62 billion, with an average duration of 10 days per transaction.

Online term deposit accounts

In September 2014, we launched the "*Conto Facto*" online restricted term deposit account in Italy, aimed at both retail and corporate clients and guaranteed by FITD (*Fondo Interbancario di Tutela dei Depositi*). In May 2015 we also launched the "*Conto Facto Plus*" online term deposit account in Italy.

In August 2015 we launched, through our Spanish branch, the "*Cuenta Facto*" online restricted term deposit account in Spain, also aimed at both retail and corporate clients and guaranteed by FITD.

During 2016, we also started the collection of term deposits in Germany through the online platform *Weltsparen.de*, by our Spanish branch under the freedom to provide services, and reserved only to retail investors within the threshold of €100 thousand per depositor.

As of December 31, 2016 we held deposits totaling €822,438 thousand through our "*Conto Facto*", "*Conto Facto Plus*" and "*Cuenta Facto*" online term deposit accounts. As of December 31, 2015 we held deposits totaling €416,652 thousand through our "*Conto Facto*", "*Conto Facto Plus*" and "*Cuenta Facto*" online term deposit accounts (representing, respectively, 18.2% and 13.6% of total financial resources), compared to deposits totaling €226,258 thousand held as of December 31, 2014.

In particular, the annual interest rate applied to term deposit account "*Conto Facto*" passed from 2.40% as of December 31, 2014, to 1.55% as of December 31, 2015, to 1.45% as of December 31, 2016 and to 1.35% from February 2017. The annual interest rate applied to term deposit account "*Cuenta Facto*" went from 1.50% to 1.25% as of December 31, 2015 and 2016, respectively, remaining at 1.25% as of February 2017.

As of December 31, 2016 we held deposits totaling €822,438 thousand through our "*Conto Facto*", "*Conto Facto Plus*" and "*Cuenta Facto*" online term deposit accounts. As of December 31, 2015 we held deposits totaling €416,652 thousand through our "*Conto Facto*", "*Conto Facto Plus*" and "*Cuenta Facto*" online term deposit, compared to deposits totaling €226,258 thousand held as of December 31, 2014.

Other financing

As of December 31, 2016 the value of the other financing was equal to €288,653 thousand. Other financing increased from €231,946 thousand for the year ended December 31, 2014 to €267,014 thousand for year ended December 31, 2015.

Other financing refers to funding provided by International Factors Italia S.p.A.-Ifitalia, UniCredit Factoring S.p.A. and the insurance company PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych Bis 1 (€56.9 million as of December 31, 2016 in favor of Magellan) pursuant to collaboration agreements entered into with each of them in connection with the sale of receivables owed by the public administration.

As of December 31, 2014, other financing includes €40 million related to the financing granted by Cassa Depositi e Prestiti used for the refinancing our securities portfolio, repaid during the month of June 2015.

Potential limits to the use of funding sources

The government securities assigned as collateral in the context of both refinancing operations with the ECB and Repo transactions amounts to a value of €1,832 million and €1,128 million as of December 31, 2016 and December 31, 2015 respectively, and are made up of government securities included in the AFS and HTM portfolio.

In the period to which the financial information reported in this Offering Circular refers, no limits or restrictions were placed on the use of our cash and cash equivalents. As of the date of this Offering Circular, no limits or restrictions of such a kind are in place.

Covenant, negative pledge and cross default clauses

The terms and conditions of our main Loan Agreements relating to the bilateral loans, the 2017 Notes, the 2021 Notes and the bonds issued by Magellan, that are outstanding as of December 31, 2016 and December 31, 2015, in accordance with market practice for similar transactions, include, *inter alia*, the following clauses: (i) information undertakings, (ii) events of default, (iii) negative pledges, (iv) restrictions in carrying out certain types of transactions and (v) restrictions in disposing of our assets.

Loan Agreements

Under certain Loan Agreements we must comply, throughout the entire funding period, with certain financial ratio covenants. In all relevant time frames we have complied with said financial ratio covenants. With reference to the information undertakings, and specific obligations of a non-informational nature, see "*Business—Funding—Terms and conditions of our main loan agreements—Covenants and reporting obligations*".

Furthermore, the Loan Agreements include a series of default events (which, in some cases, are provided also for the companies belonging to the Group). See "*Business—Funding—Terms and conditions of our main loan agreements—Events of default*".

As of the date of this Offering Circular, neither we nor the companies of the Group have been involved in cross-default events, nor has any clause, entailing a violation on our part of the obligations pertaining to the legal relationships *vis-à-vis* third parties been triggered.

Notes

The notes do not provide for the compliance with financial parameters.

As of the date of this Offering Circular, no event of default has occurred pursuant to the 2017 Notes.

The terms and conditions of the 2021 Notes contain negative pledge clauses and certain events of default. See "*Business—Funding—€150.0 Million Senior Notes due 2021*".

With reference to the bonds issued by Magellan, their terms and conditions are governed by Polish law. They include a series of events of default which are deemed customary for this kind of transactions-with the provision, depending on the case, of relevance thresholds, exceptions, baskets and grace periods-such as, by way of example: (a) failure to pay, within an expiry date, any amounts due either as principal or interest; (b) Magellan's breach of any of its obligations arising under the terms and conditions of the notes; (c) a court sentence against Magellan providing that the latter pay an amount exceeding PLN 5 million (equal to around €1.2 million); (d) an unsecured asset ratio not lower than 120%; (e) financial indebtedness exceeding PLN 20 million is not paid when due or is declared due and payable before the original maturity date.

Derivative Instruments

Hedging of exchange rate risk and interest rate risk

In order to grant an adequate hedging of the exchange rate risk we use, in compliance with internal policies, *forward* derivative contracts to prevent the risks inherent in the fluctuation of exchange rates.

As of December 31, 2016 we have entered into derivative agreements to cover the interest rate entirely executed by Magellan. The following table shows the details of such agreements. Prior to the Magellan Acquisition, we did not have any derivative agreements.

Derivatives contracts	Date executed	Spot rate	Maturity date	Forward rate	Fair value as of December 31, 2016
			(in € thousands)		
FWD 1 (EUR/PLN) . .	December 27, 2016	4.4040	February 12, 2017	4.4240	36
FWD 2 (EUR/PLN) . .	December 27, 2016	4.4040	March 24, 2017	4.4340	1
FWD 3 (EUR/PLN) . .	December 27, 2016	4.4040	April 21, 2017	4.4425	—
FWD 4 (EUR/PLN) . .	December 27, 2016	4.4040	August 9, 2017	4.4725	22
FWD 5 (EUR/PLN) . .	December 27, 2016	4.4040	November 17, 2017	4.5005	23
FWD 6 (EUR/PLN) . .	December 27, 2016	4.4040	December 21, 2017	4.5110	23
FWD 7 (EUR/PLN) . .	December 27, 2016	4.4040	March 23, 2018	4.5340	23
FWD 8 (EUR/PLN) . .	December 27, 2016	4.4040	April 20, 2018	4.5415	7
FWD 9 (EUR/PLN) . .	October 4, 2016	4.2920	September 1, 2017	4.3187	111
FWD 10 (EUR/PLN) .	December 20, 2016	4.4130	March 22, 2017	4.4405	(80)
FWD 11 (EUR/PLN) .	December 16, 2016	4.4290	January 20, 2017	4.4400	(51)
FWD 12 (EUR/CKZ) .	December 20, 2016	27.0100	March 31, 2017	26.9800	2
FWD 13 (EUR/PLN) .	December 22, 2016	4.4150	January 23, 2017	4.4262	(27)
FWD 14 (EUR/PLN) .	December 28, 2016	4.4100	March 31, 2017	4.4415	(18)
FWD 15 (EUR/PLN) .	December 28, 2016	4.4100	March 29, 2017	4.4413	(7)
Total					**65**

As of December 31, 2015 and 2016, the management of interest rate risk coverage benefitted from the positive effect deriving from the significant impact of the fixed rate collection on our total of funding, with particular regard to the time frames exceeding 6 months (which are have a higher level of exposure to interest rate risk). As of December 31, 2015, the Group had no derivative agreements in place.

As of December 31, 2016, the Group has entered into derivative agreements to cover the risk inherent to exchange rate fluctuation. The following table shows the details of such agreements. Prior to the Magellan Acquisition, we did not have any material exchange rate risk and consequently we had no derivative agreements in place. The table below shows the main characteristics of these derivative contracts.

Derivatives contracts	Date executed	Inception date	Maturity date	Fixed rate	Reference variable rate	Fair value as of December 31, 2016(1)
			(in € thousands)			
IRS 1	January 5, 2015	January 5, 2015	November 27, 2017	1.84%	WIBOR 6 months	(1)
IRS 2	July 1, 2016	June 30, 2016	May 31, 2019	1.618%	WIBOR 3 months	526
Total						**525**

Due to the interest rate swap agreement entered into on July 1, 2016 the price we actually pay for interest is fixed and is equal to 3.118%. The agreement provides a structuring fee paid upfront, equal to 150 bps of the disbursed loan paid in Euro.

Off balance sheet arrangements

We enter into off balance sheet arrangements with unconsolidated entities in the ordinary course of our business, primarily to facilitate client transactions.

The following table provides an analysis of our off-balance sheet arrangements as of December 31, 2016, 2015, and 2014. The amounts disclosed represent the net exposure for the relevant period.

	As of December 31,		
	2016	**2015**	**2014**
		(in € thousands)	
Guarantees provided and commitments			
Financial guarantees provided to banks	22	—	22
Irrevocable commitments to disburse funds towards customers (uncertain use)	127,986	117,461	11,280
Total	**128,008**	**117,461**	**11,302**
Assets pledged to secure the Group's liabilities and commitments			
Available-for-sale financial assets	185,165	326,029	289,717
Held-to-maturity financial assets	1,623,209	822,350	744,262
Loans and receivables	630,024	651,515	495,260
Total	**2,438,398**	**1,799,894**	**1,529,239**

Guarantees provided and commitments

Financial guarantees provided to banks refer to the commitment undertaken towards *Fondo Interbancario di Tutela dei Depositi*.

Irrevocable commitments to disburse funds towards customers refer to commitments to purchase receivables that have already been identified.

Assets pledged to secure the Group's liabilities and commitments

Available-for-sale financial assets consist of government securities used as collateral in e-MID transactions, as well as in transactions with the ECB and in market repos.

Held-to-maturity financial assets were used as collateral in transactions with the ECB and in market repos.

Loans and receivables include (i) receivables sold but not written off related to securitization transactions in place and (ii) receivables used as collateral for financing transactions with Ifitalia and Unicredit Factoring.

Capital Expenditures

Capital Expenditures

In the years between 2014 and 2016, capital expenditures in intangible assets mainly concerned the purchase of electronic equipment, the restructuring of buildings owned and rented out in Milan and Rome and the purchase or renewal of other company equipment (*e.g.* alarm systems, air conditioning or telecommunication systems).

In the same time frame, capital expenditures relating to intangible assets mainly concerned software, including the "*Conto Facto*" software, necessary in order to set up the activity of our Spanish branch during the course of 2015, as well as "*Cuenta Facto*" (base software and hardware), for the purpose of guaranteeing system availability, continuity, performance and security.

In particular, the following systems have been launched: (i) a new system of management of general and analytic accounting, of purchases and assets; (ii) a new system of treasury and finance management; (iii) CSE systems for the management of banking activity and for related supervisory communications (*segnalazioni di vigilanza*), supplemented with the factoring, general accounting and treasury accounting systems; and, during 2015, (iv) RSI systems for the management of banking activity, instrumental for our Spanish branch in order to carry out its business.

The table below sets forth our capital expenditures for the periods indicated:

	As of December 31,		
	2016	**2015**	**2014**
	(in € thousands)		
Buildings	—	211	262
Moveable assets	69	51	39
Electronic equipment	632	714	520
Other tangible assets	191	112	96
Total tangible assets	**892**	**1,088**	**917**
Total intangible assets	**1,886**(*)	**1,716**	**1,620**
Total capital expenditures	**2,778**	**2,804**	**2,537**

(*) Excluding goodwill of €22,146 thousand.

Ongoing and Future Investments

Ongoing capital expenditures in tangible and intangible assets do not involve significant costs. Such capital expenditures concern the ongoing capital expenditures carried out in relation to the migration of the technological infrastructure Magellan to that of the Company and to the activity of the Spanish branch, the purchase of electronic equipment and other company equipment, as well as renovating Magellan's office buildings.

We have not made any definitive future commitments for material amounts of capital expenditures.

Critical accounting policies

Our financial statements included elsewhere in this Offering Circular include a description of certain significant accounting policies which require us to make estimates and assumptions that affect reported results and disclosure.

We believe the following items are critical accounting policies. By "critical accounting policies" we mean policies that are both important to the portrayal of our financial performance and financial results, and that require critical management judgments and estimates about matters that are inherently uncertain.

Although we believe that our discretionary judgments and estimates are appropriate, actual future results may differ from our estimates.

Receivables due from customers

Recognition criteria

Receivables are initially recognized at fair value, which usually corresponds to the consideration paid including transaction costs and income directly attributable to the acquisition or provision of the financial asset, even if not yet settled.

Purchased non-recourse receivables:

- involving the transfer of substantially all risks and benefits, are initially recognized at fair value, represented by the face value of the receivable net of fees and commissions charged to the assignor; and
- for amounts below face value are recognized at the amount actually paid at the time of purchase.

Classification criteria

Receivables are non-derivative financial assets due from customers and banks, with fixed or determinable payments that are not traded in an active market. Receivables are recognized on the date of the signing of the sale contract, which normally coincides with the date of payment to the counterparty.

All purchases of non-recourse receivables refer to factoring transactions executed pursuant to Law no. 52/1991.

The amounts due from banks mainly refer to current account transactions generated by liquidity from amounts collected in the closing days of the year, pending clearance, relating both to "receivables management" and "management of receivables purchased on a non-recourse basis".

Receivables due from customers mainly include receivables due from debtors relating to factoring activities and late payment interest, computed on receivables purchased on a non-recourse basis, determined in accordance with applicable laws (Legislative Decree No. 231/2002 "Implementation of Directive No. 2000/35/EC on combating late payments in commercial transactions").

Measurement criteria of receivables purchased on a non-recourse basis

Following initial recognition, receivables purchased on a non-recourse basis are measured at amortized cost, determined on the basis of the present value of estimated future cash flows.

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

Performing receivables include receivables due from customers that, albeit being past due for over 90 days from the face due date, show no objective indication of impairment at an individual level.

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

This assessment is carried out based on the probability of default and loss given default risk parameters, which are applied to exposures not classified as non-performing (EAD).

The collective assessment of the probability of default was carried out by assigning to debtors (ASLs/AOs) a rating corresponding to the credit rating assigned by the major rating agencies to the particular region to which the relevant debtors belong. With regard to receivables due from Italian public administrations, we used the rating assigned to Italy.

To determine the loss given default, we used the value recommended in the Basel Accord Framework for unsecured receivables owed by sovereign states, companies and banks, equal to 45% of the Probability of Default (PD) found.

As required by IAS 39, and for the purposes of an analytical evaluation, we carried out an assessment of the financial assets classified as receivables to identify any objective impairment of individual positions. Non-performing loans, which were assigned an impaired, doubtful or restructured status in accordance with the Bank of Italy's existing regulations, in accordance with IAS standards currently in force, are measured at their estimated realizable value by recognizing any impairment losses determined on an individual basis, equal to the difference between the carrying amount of the receivable at the time of measurement (amortized cost) and the present value of estimated future cash flows, calculated by applying the original effective interest rate. The estimated future cash flows take into account:

- estimated recovery time;
- estimated realizable value of any guarantees;
- costs that likely to be incurred to recover the receivable; and
- any reinstatements.

Cash flows from receivables that are expected to be recovered in the short term (up to twelve months-short-term receivables) are not discounted to their present value. Receivables arising from purchases on a non-recourse basis are measured at "*amortized cost*" determined on the basis of the current value of estimated cash flows, including both main and late payment interest, accrued from the date of the maturity of receivables.

Measurement criteria of receivables purchased on a non-recourse basis

As required by IAS 39, the Magellan Group carries out the assessment of its receivables at their amortized cost, including late payment interest, on the basis of the data of the previous financial years, to a 97%

recovery rate (although some cases are individually dealt with, in light of the specific conditions set forth in the related settlement agreement). The 97% recovery rate is calculated on the basis of an 8% rate for late payment interest, notwithstanding that in Poland the applicable rate for late payment interest was increased on January 1, 2016, to 9.5%.

It should be noted that Magellan does not disclose its late payment interest from expired commercial receivables as soon as they are due, as BFF and FFE do. Instead, they wait until they can be reasonably sure that the receivables will be repaid, depending on the terms agreed with the borrowing counterparty or as determined by the relevant authority.

In the context of completing the integration of the Group's operating processes, which include updating historical data and analysis techniques to those used by the parent companies, BFF utilized the same evaluation criteria established by the local management when Magellan was listed, which confirm an almost full recovery of the late payment interest recorded in their balance sheet in accordance with the above criteria, net of discounts and/or rounding offs granted to the relevant debtor at a maximum rate of 3%.

However, despite the relatively small value of late payment interest within Magellan's overall revenues and as a result of the ongoing integration, a specific work group has been established with the purpose of reconstructing suitable historical data on the basis of the currently available data for the region, in order to adopt an accrual method similar to the one used by the parent company.

Income tax surcharge exclusively for tax period 2013 ("addizionale IRES")

Law Decree No. 181 of November 30, 2013 aimed at credit and financial institutions and insurance companies provided an 8.5% surcharge for ordinary income tax ("*aliquota IRES*"), which increased from 27.5% to 36%. This change entailed higher income tax costs for the Group equal to €7,110 thousand.

Measurement of late payment interest

IAS 18 permits the inclusion of interest in a company's income statement only if it is likely to generate positive cash flows for a company and such projected cash flows can be estimated reliably. Until December 31, 2013, we had no reliable estimates of the recovery percentage of late payment interest and the timing for collection, we did not recognize non-invoiced late payment interest accrued on our portfolio of receivables and we completely wrote-off any invoiced and uncollected late payment interest by creating a provision recognized as a reduction of assets. Concurrently with the actual collection of late payment interest, the write-off was reversed and these amounts were recognized in our income statement, based on the percentage of actual recovery.

Since 2014, we adopted evaluation tools for our Traditional Activities that allow us to collect historical data and calculate reliable estimates of the recovery percentage of late payment interest and the timing for collection. In this way, we estimated, on the basis of our historical data on collected amounts and timing for collection, the percentage of late payment interest that will be collected to be equal to 40% of its nominal value at the date of collection (estimated to fall within 1800 days from the maturity date). In order to take into account these estimates in the value of our receivables, a change was made to the amortized cost computation model which now also includes, in addition to the cash flows relating to the principal amount of the receivables, the cash flows relating to the estimates of the recovery percentage of late payment interest and the timing for collection.

Due to the change in the method used to calculate the recoverability of late payment interest, we recorded in our income statement for the year ended December 31, 2014 a significant amount of non-recurring income based on the estimated amounts of receivables for late payment interest recognized in 2014 and in previous financial years.

The income statement for the year ended December 31, 2015 (and any subsequent year) only records late payment interest on an accrual basis relating to that year. The income statement for the year ended December 31, 2016 only records late payment interest on an accrual basis relating to that year.

Since our calculations are based on an estimation process, albeit structured and reliable, there is a risk that the percentages of actual collection of late payment interest may not match the estimated percentages or that in future years, after updating our historical data, the estimates of our future cash flows may need to be changed. In this case, the effect of such changes will be recorded in our income statement for the relevant year even if it relates to receivables recognized in prior years.

Derecognition criteria

Receivables are derecognized when they are considered uncollectible. Sold receivables are derecognized only if the sale transferred all of the risks and benefits relating to such receivables. Conversely, if the risks and benefits are retained, the receivables sold will continue to be recorded under the assets in the financial statements until legal title to the receivables is effectively transferred.

Use of estimates and assumptions in the preparation of the financial statements

In compliance with IFRS, the preparation of the financial statements as of December 31, 2016 and December 31, 2015 requires certain estimates and assumptions to be made by our management. These involve the use of available information and the adoption of subjective judgments also based on our historical experience in order to formulate reasonable assumptions for the recognition of operating events. These estimates and assumptions may vary from one year to the next and, therefore, the actual results recorded in the financial statements may differ significantly due to changes in the subjective judgments adopted by us.

Estimates and assumptions are reviewed regularly. Any changes resulting from a review are recognized in the period in which such review was carried out, *provided that* the change refers only to that period. If the review is carried out in respect of both current and future periods, the change is recognized in both the current and future periods.

Uncertainties in estimates mainly arise in the measurement of:

- the degree of recoverability and estimated collection times for interest on late payments due on the purchase of non-recourse receivables owed to us, based on an analysis of our historical data;
- impairment losses on receivables and, more generally, other financial assets;
- the fair value estimation of financial instruments to be used for disclosure purposes;
- the fair value of financial instruments not listed in active markets, using estimation models;
- any impairment of investments;
- employee benefit obligations based on actuarial assumptions and provisions for risks and charges; and
- the recoverability of deferred tax assets.

Explanation of key items in our Income Statement

Revenue

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

Interest income

Interest income on receivables from customers is recognized at the effective return. Similarly, fees and commissions charged to the assignor for the purchase of non-recourse receivables are recognized as transaction revenue and are therefore part of the actual return of the receivable.

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

Fees and commissions

Fees and commissions for receivables managed on behalf of assignors are recognized in two successive steps in relation to the timing and nature of the service rendered:

- when the receivables are entrusted for management (fees and commissions on acceptance and handling expenses); and
- when the receivables are collected (collection fees and commissions).

RISK MANAGEMENT

We are subject to risks that are an inherent part of our business activity. These risks include credit risk, market risk, liquidity risk, and operational risk, as well as business risk. Our profitability depends on our ability to identify, measure and continuously monitor these risks.

In order to achieve this, our Group's internal control system has been built around a set of rules, practices, procedures and organizational structures designed to ensure: (i) the governance of the risks and the responsibilities of the organizational units involved in the management process; (ii) the identification of risks to which we are exposed, (iii) the measuring and stress testing methods and the information flows that comprise the monitoring activities; (iv) the annual assessment of the adequacy of internal capital; and (v) the assessment of prospective future capital required for strategic planning and business expansion.

General overview

The Company's corporate bodies define the governance and risk management model for the entire Group, taking into account the specific types of business and their related risk profiles throughout the Group, in order to create an integrated and consistent risk management process.

Second-level controls aimed at managing risk are implemented by the Risk Management function and the Compliance and AML Functions, which are organized as follows:

- As set out below in more detail, the Risk Management Function ("**Risk Management**"): (i) monitors the controls over the management of risks in order to define the methodologies used to measure risk, (ii) verifies that the limits assigned to the various operating departments are being met and (iii) checks that the operations of the individual product areas are consistent with the assigned risk and return objectives.
- The Compliance Function ("**Compliance**") is responsible for controls over risks of non-compliance, aimed at verifying whether the bank's activities and operating processes are suitable for preventing the violation of laws.
- The Anti-Money Laundering Function ("**AML**") oversees compliance in matters of anti-money laundering and anti-terrorism, and is responsible for the controls required by anti-money laundering laws that prevent financial systems from being used for money laundering and financing terrorism.

The organizational positioning of the Risk Management Function of BFF and of the equivalent structures of the Subsidiaries conforms to the principle of separation between Internal Control Functions and Corporate Structures, as prescribed by the Supervisory Rules in force.

In accordance with such provisions, the Risk Management Function and the homologous functions of the Subsidiaries are placed among the second level Internal Control Functions together with the Compliance and AML Function and the homologous functions of the Subsidiaries. As mentioned above, the Risk Management Function is in charge of the second level controls. Such controls are subsequent and separate from the verifications concerning the correct running of company's operations, directly assigned to the Corporate Structures (including, credit, finance, among others) which, based on the activities carried out thereby, have an impact on the Bank's risk taking and oversees the relevant profile thereof (so called line or first level controls). Therefore, the Risk Management Function and the equivalent functions of the Subsidiaries are kept separate and independent from the Corporate Structures involved in the realization of the processes subject to their control.

To safeguard its independence, the Risk Management Function is positioned under the authority of the Chief Executive Officer and hierarchically reports to him, and is separate from the Internal Audit Function, the Compliance and AML Function. The Risk Management Function is not involved in any risk taking processes.

Considering the organizational structure of our Group, the head of the Risk Management Function of each subsidiary is, on one hand, positioned under the management body of the relevant company from a hierarchical standpoint and, on the other, reports directly to the head of the Risk Management Function of BFF.

In particular, the Risk Management department is, *inter alia*, responsible for:

- cooperating with the corporate governance bodies in defining the overall risk management system and the entire reference framework relating to the assumption and control of the risks of the Group (Risk Appetite Framework);
- establishing adequate risk management processes through the adoption and maintenance of suitable risk management systems, in order to map, measure, control or mitigate all relevant risks;
- providing an assessment of the capital absorbed, also under stress conditions, and the relative adequacy, by defining processes and procedures to meet every type of present and future risk, which take into account strategies and context changes;
- overseeing the implementation of the risk management process and ascertaining that it is being complied with;
- monitoring the adequacy and effectiveness of the actions taken to resolve any weaknesses found in the risk management system; and
- submitting periodical reports to the corporate governance bodies on the activities carried out and providing them with consulting support on risk management issues.

Basel III rules and capital adequacy

Basel III

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

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

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

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

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

From the standpoint of operations, the absorption of risks is calculated using various methods:

- credit risk → standardized approach
- counterparty risk → standardized approach
- market risk → standardized approach
- operational risk → basic approach

The group publishes Pillar III disclosure and subsequent updates on our website www.bancafarmafactoring.it and www.bffgroup.com at least once a year, within 30 days of the approval of the financial statements by the shareholders' meeting.

Capital adequacy

The regulatory framework requires that own funds (or regulatory capital) are made up of the following tiers of capital:

- Total Capital, which is composed of:
    - Common Equity Tier 1 Capital (CET1);

- Additional Tier 1 Capital (AT1);
- Tier 2 capital (T2)

Total Capital's largest element is Common Equity, mainly composed of equity instruments (e.g. ordinary shares net of treasury shares), share premium reserves, profit reserves, valuation reserves, eligible minority interests, plus deducted elements.

In general, the AT1 category includes equity instruments other than ordinary shares that meet the regulatory requirements for inclusion in that level of own funds (e.g. savings shares).

Tier 2 capital is mainly composed of eligible subordinated liabilities.

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

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

The Banking Group constantly assesses its capital structure, developing and utilizing techniques for monitoring and managing regulated risks, including through its internal risks committee. For prudential supervision, the required amount of capital is determined on the basis of the current reporting regulations.

The Banking Group's own funds do not include capital items that qualify as Additional Tier 1 Capital (AT1) and Tier 2 Capital (T2).

The following tables show the comparison between the minimum regulatory and supervision requirements and material solvency as of December 31, 2016 and 2015, including the new minimum capital ratios which were communicated to us by the Bank of Italy on March 10, 2017. See "*Business—Legal Proceedings*".

	Minimum regulatory requirement[(1)]	Capital conservation buffer	Minimum regulatory requirement (including Capital conservation buffer)	SREP[(2)]	SREP (including Capital conservation buffer)[(2)]
CET1 capital ratio	4.5%	2.5%	7.0%	0.3%	7.3%
Tier 1 ratio	6.0%	2.5%	8.5%	1.3%	9.8%
Total Capital Ratio	8.0%	2.5%	10.5%	2.5%	13.0%

(1) From December 31, 2014, only the Basel III minimum regulatory requirements shall apply.

(2) The minimum requirement requested following the supervisory activities carried out by the Bank of Italy in 2015. Compliance with these additional requirements set out by the capital decision was required from the communication on own funds as of December 31, 2015. As provided by the Bank of Italy provision, pursuant to article 67-ter, paragraph 1, of the Consolidated Banking Act, the capital levels assigned following a SREP procedure apply only at a consolidated level.

	Minimum regulatory requirement[(1)]	Capital conservation buffer	Minimum regulatory requirement (including Capital conservation buffer)	SREP[(2)]	SREP (including Capital conservation buffer)[(2)]
CET1 capital ratio	4.5%	1.25%	5.75%	0.80%	6.55%
Tier 1 ratio	6.0%	1.25%	7.25%	1.10%	8.35%
Total Capital Ratio	8.0%	1.25%	9.25%	1.50%	10.75%

(1) From December 31, 2014, only the Basel III minimum regulatory requirements shall apply.

(2) The minimum requirement requested by the Bank of Italy with the communication of initiation of the administration procedure for the adoption of a capital decision received by the Company on March 10, 2017. The new minimum capital ratio levels shall be required from the first communication on own funds filed to the regulatory authority following the conclusion of the

procedure. As provided by the Bank of Italy provision, pursuant to article 67-ter, paragraph 1, of the Consolidated Banking Act, the capital levels assigned following a SREP procedure apply only at a consolidated level.

	As of December 31, 2016			As of December 31, 2015		
	Group(1)	Group(2)	Company	Group(1)	Group(2)	Company
CET1 capital ratio	16.7%	16.4%	15.7%	24.3%	23.9%	20.8%
Tier 1 ratio	16.7%	16.5%	15.7%	24.3%	24.0%	20.8%
Total Capital Ratio	16.7%	16.6%	15.7%	24.3%	24.1%	20.8%

(1) "Group" as defined in the Consolidated Banking Act.

(2) "Group" which, on the basis of the EU Regulation no. 575/2013 (CRR), considers BFF Luxembourg S.à r.l. to be at the head and with limitation to the supervisory reports as of December 31, 2015, BFF Lux Holding.

Although the Group's capital ratios shown above indicate an overall downward trend, they are still higher than the minimum requirements imposed by regulators. The negative trend is due to the Magellan Acquisition, the growth of the business and the implementation of the Group dividend policy. With reference to the Company, the capital ratios show a decreasing trend, from 20.8% as of December 31, 2015 to 15.7% as of December 31, 2016. The required capital conservation buffer for 2016 has been set at 2.5%, while, following the update to Circular 285 on October 4, 2016, this rate has been reduced to 1.25% and 1.875% for the years 2017 and 2018 respectively, before subsequently reverting to 2.5% as of January 1, 2019.

Every year we remain subject to a process of prudential supervision and evaluation carried out by the Bank of Italy ("**SREP**") aimed at ensuring that adequate controls of the organization and liquidity management are in place, in respect of the assumed risk, as well as in stress scenarios. The reduction of the capital conservation buffer requirements introduced by the Bank of Italy may not be reflected in the final decision of the regulator on our compliance with the relevant capital requirement as part of SREP.

The Board of Directors of the Company has adopted a dividend policy which provides a mandatory proposal at the meeting of the shareholders to proceed in a distribution of dividends up to 100% of the Group's consolidated yearly net income for the amount exceeding the 15% Total Capital Ratio target of the consolidation perimeter of the Banking Group.

In addition, BFF Luxembourg has undertaken to maintain a dividend policy to its shareholders capable of keeping a Total Capital Ratio not lower than 15%, at both the levels of the Banking Group and the consolidation perimeter for the purposes of the CRR.

The following table sets forth the Group's main solvency indicators as of December 31, 2016, 2015 and 2014, pursuant to the Consolidated Banking Act.

Following the conclusion of the annual SREP process, on March 10, 2017, we received a Bank of Italy communication by which they informed us of the initiation of the administrative procedure concerning the adoption of a capital decision. The Bank of Italy highlighted certain areas of improvement concerning: (i) effectiveness of corporate governance features, also taking into account the results of the Company's self-assessment process; (ii) organizational structure and internal control system, with particular regard to the detection and control of risks connected to the integration of Magellan, and its subsidiaries, into the Group; and (iii) concentration of our business in the Italian healthcare sector and the need to continue expansion into other markets to widen our strategic position, reducing the impact large exposures.

With regard to the abovementioned areas, the Bank of Italy strongly suggested that the Company continue carrying out the activities it has already undertaken.

	As of December 31, (excluding Magellan) 2016	As of December 31, 2016	2015	2014
	(in € thousands, except percentages)			
Solvency indicators				
Common Equity Tier 1-CET 1	259,045	235,345	259,265	260,053
Own funds	259,045	235,345	259,265	260,053
Credit risk	58,934	82,998	60,809	52,831
Operational risk	26,548	29,775	24,457	22,846
Market risk	—	—	—	94
Interest risk (Pillar II)	7,779	9,259	15,125	8,903
Credit risk concentration (Pillar II)	13,289	15,244	11,522	9,992
Risk weighted assets	1,068,975	1,410,612	1,065,819	947,139
CET 1 capital ratio	24.2%	16.7%	24.3%	27.5%
Tier 1 ratio	24.2%	16.7%	24.3%	27.5%
Total Capital Ratio	**24.2%**	**16.7%**	**24.3%**	**27.5%**
Total assets exposure	**4,249,057**	**4.736.264**	**3,336,877**	**3,005,843**
Risk weighted assets/total assets exposure	25.2%	21.9%	22.8%	22.0%
Excess capital (Pillar I + Pillar II)	152,459	97,993	147,134	166,093

As of December 31, 2016, the Group's own funds decreased to €235,345 thousand (from €259,265 thousand as of December 31, 2015) due, mainly, to the Magellan Acquisition which impacted own funds by €22.1 million, following the goodwill and capital requirements in relation to the Magellan Group's activities of €20.4 million. own funds as of December 31, 2016 do not include the net income of the first half of 2016, assuming a 100% dividend payout for 2016. As of December 31, 2015, own funds were equal to €259,265 thousand, remaining largely unchanged from €260,053 thousand as of December 31, 2014.

The following table sets forth the Company's main own funds requirements as of December 31, 2016, 2015 and 2014 pursuant to the Consolidated Banking Act.

	As of December 31, 2016	2015	2014
	(in € thousands)		
Common Equity Tier 1 CET1 before prudential filters	261,107	262,012	262,106
Elements to be deducted from CET1	(25,794)	(2,747)	(2,053)
Common Equity Tier 1-CET 1	235,345	259,265	260,053

The Company's capital requirements (Total Capital Ratio, Tier 1 Ratio and CET 1 Ratio) are compliant with the minimum regulatory and supervisory requirements. In particular, the abovementioned Company's requirements Total Capital Ratio are equal to 16.6% and 24.1%, respectively, as of December 31, 2016 and 2015.

The reduction in the "*risk weighted assets/total assets exposure*" is mainly the result of an increase in the volume of purchased receivables owed by counterparties belonging to the Central Administration and local entities primarily in Italy, the weighting for which is lower than the one applied to receivables owed by counterparties belonging to the Italian national healthcare system, as well as of the growing importance to the Group of receivables purchased by Farmafactoring España in the healthcare sector, to which a lower weighting of 20% is applied.

The following tables show the risk-weighted assets and the average weighting of the Group's outstanding assets, related to non-recourse factoring referred to Traditional Activities, broken down by geographical area as of December 31, 2016, 2015 and 2014.

	As of December 31,		
	2016	2015	2014
	(in € thousands)		
Risk weighted assets			
Italy	984,127	976,727	867,706
Spain	45,232	58,860	57,198
Portugal	39,602	30,232	22,235
Poland	287,016	—	—
Czech Republic	3,695	—	—
Slovakia	50,941	—	—
Total	**1,410,612**	**1,065,819**	**947,139**

	As at December 31,		
	2016	2015	2014
Average weighting of the outstanding			
Italy	35%	36%	43%
Spain	16%	23%	21%
Portugal	100%	100%	100%
Poland	—	—	—
Czech Republic	—	—	—
Slovakia	—	—	—

Over the course of the financial year ended 2016, there was an increase in the amount of activities carried out with non-healthcare public administrations, in comparison with activities carried out with national healthcare systems, particularly with regards to Spain and Italy, thereby increasing activities with a risk weighting of 20% and 0% for central government and local governements, compared to those with a risk weighting of 50% (Italian healthcare system and public administration and Poland, among others.).

The Magellan Acquisition has resulted in an increase in risk weighted assets as of December 31, 2016 equal to €341,637 thousand compared to December 31, 2015, as well as an increase in impaired net loans equal to €9,225 thousand as of December 31, 2016, resulting in a reduction in our coverage of impaired loans. The Group's credit risk provisions, excluding Magellan, was equal to €19,541 thousand as of December 31, 2016, while those of the Group (including Magellan) were equal to €23,883 thousand as of December 31, 2016. The coverage ratio of the Group's total loans, excluding Magellan, was equal to 0.9% as of December 31, 2016, while that of the Group (including Magellan) was equal to 0.9% as of December 31, 2016. Furthermore, as of December 31, 2016, the Group incurred: costs equal to €7.6 million in relation to the Magellan acquisition; inclusive of the costs for obtaining waivers from holders of debt securities that we and Magellan have issued.In line with the CRR requirements, starting with the reports of December 31, 2015, in the scope of consolidation used exclusively for prudential supervision purposes, BFF Lux Holding has been considered as the parent company of the Group. However, for the purpose of preparing the financial statements and filing "*non-harmonized*" reports, BFF continues to be considered as the parent company of the Group pursuant to the Consolidated Banking Act, as shown in the table above.

Credit risk management policies

Organization

The monitoring and management of credit risk starts with a preliminary review of the credit line application, before a factoring service is offered. The various corporate functions collaborate with synergy to provide analytical and subjective assessments of the counterparties, both from a quantitative (current and past economic conditions) and qualitative (potential credit volumes to be managed) standpoint.

The guidelines and the procedures for monitoring and controlling credit risk for the Company are contained in the "Credit Regulation" in force, approved by the Board of Directors on September 10, 2015, and subsequent updates. On December 29, 2016 Magellan approved its credit regulation, while Farmafactoring España is currently reviewing its credit regulation.

The Group's "Credit Regulation" describes the phases that in sector regulations are identified as components of the credit process:

- background check;
- decision;
- disbursement;
- monitoring and review;
- dispute.

In order to identify the most important risk factors, the main activities carried out by the Group are described as follows:

- receivables management only;
- non-recourse factoring; and
- financing to healthcare entities and local governments in EEC.

Credit risk is therefore adequately safeguarded at various levels within the framework of the multiple operating processes.

Management, measurement and control systems

The assessment of credit risk is part of an overall analysis of the adequacy of the Group's capital in relation to the risks connected with lending. The Group uses the "standardized" approach to measure credit risk, in accordance with the Bank of Italy in Circular No. 285 "*Oversight provisions for banks*" and Circular No. 286 "*Instructions for the preparation of supervisory reporting by banks and securities intermediaries*," both dated December 17, 2013, and subsequent updates. This approach involves the classification of exposures into different classes (portfolios), depending on the type of counterparty and the application of diversified weighted ratios to each counterparty.

Magellan and its subsidiaries apply the same methods of the parent company for calculating capital requirements and monitoring exposures. As a general rule, Magellan enters into relationships with customers with adequate credit capacity and, if necessary, requires appropriate guarantees to mitigate the risk of financial loss resulting from default of customers. The exposure to credit risk of Magellan and its subsidiaries is monitored on an ongoing basis by its Credit Risk Department and as a secondary control, by its Risk Management Department, which functionally refers to the Risk Management Department of the parent company.

For each transaction, credit risk is measured at the time of the receipt of the request and then monitored regularly in the following phases, including changes in external conditions and the financial capacity of the borrowers. Magellan, for itself and its subsidiaries, monitors the exposure concentration with reference to individuals or groups of related entities in accordance with the Supervisory Provisions.

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

- 0% for exposures towards central administrations and central banks with offices in a European Union member state and financed in the local currency;
- 20% for exposures towards territorial entities located in a European Union member state, denominated and financed in the local currency, and for exposures towards the Public Administration of countries in Credit Quality Class 1;
- The non-recourse exposures towards the Spanish Healthcare System fall into this category because the counterparties of these exposures are represented by the "*Comunidad*" (the Regions);
- 50% for exposures towards the Public Administration of countries in Credit Quality Class 2, which include the exposures with entities of the Polish and Slovakian public sector and, up until December 31, 2016, those of the Italian Public Administration. 100% for countries in Credit Quality Class 3 (Italy, starting from 2017, and Portugal). For exposures with an original duration of three months or less, a weighting of 20% is applied;

- 50% or 100% for exposures towards supervised intermediaries according to the Credit Quality Class of the country in which they have their offices, except for exposures with an original duration of three months or less, for which a weighting of 20% is applied;
- 75% for exposures towards retail and small business counterparties;
- 100% for receivables from private debtors;
- 100% for property, plant and equipment, equity investments, investment funds and other assets;
- 150% for past due loans; and
- 100% for past due loans, if the specific value adjustments are 20% or more of the unsecured portion, before value adjustments.

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

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

With regard to the approach used to calculate capital absorption, we have adopted a prudential approach that gives receivables towards public administration debtors (such as national healthcare services) a weighting according to their relevant ECAI rating (recently downgraded with an effect on the capital absorption passing from 50% to 100%). This approach has an impact on the past due calculation criteria: for BFF, the categorization as past due is linked to the estimated date of payment, and not to the date of the invoice.

There is an alternative approach, adopted by certain of our competitors—but which has not been adopted by us as of the date of this Offering Circular—that allows the application of a more favorable risk weighting (20%) by taking into consideration the original due date of the receivable. Furthermore, this alternative approach would mitigate the effects of the DBRS rating downgrade of the Italian sovereign debt on the Group's capital resources, as the calculation of capital ratios would not be affected by the rating change, but it has an important effect on past due calculation because it is related to the original date of the invoice (under this alternative regime a receivable is qualified as past due even if it is due when purchased, while under the current regime this does not occur as the past due qualification is related to the estimated date of payment; in both cases, a single payment interrupts the qualification of the receivable as past due, however, the alternative approach may have an impact on the purchases of receivables from new debtors, which would have been purchased as already past due and weighted at 150%).

The definition of past due exposures towards the public administration is under review by the European regulator and is expected to change by 2020. In particular, the classification of the exposures towards a debtor in the public administration will be aligned to the classification adopted for the private sector (qualification as past due if overdue exposure is over 5% of the total exposure towards the relevant debtor) instead of the preferential treatment used today (single payment interrupting past due qualification).

The risk weighting factors for the RWA calculation used by the alternative approach do not depend on the downgrade of the Italian sovereign debt. However, the above expected change in the regulatory framework would increase the amount of exposure classified as past due (risk weighted at 150%).

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

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

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

The Risk Weighted Amount (RWA) is determined by the sum of the risk weighted assets of the various classes.

Based on the method described above, the capital requirement covering credit risk at December 31, 2016 is €83,496 thousand.

In the "receivables management only" the credit risk is limited to the Group's exposure with the customer for payment of the stipulated fees and commissions, or the reimbursement of legal fees incurred.

"Non-recourse factoring" represents the most important amount of the whole business carried out by the Group. The background check for the credit line application is carried out with the utmost care and the decision-making power is reserved for designate approval bodies.

In view of the fact that the Group has an exposure that is almost completely composed by receivables and loans towards the public administration and other healthcare entities, the portfolio risk is thought to be limited.

Regarding risk concentration, the credit risk management process, must also abide by external regulations (Bank of Italy Circulars No. 285 "*Oversight provisions for banks*" and No. 286 "*Instructions for the preparation of supervisory reporting by banks and securities intermediaries"* and subsequent updates). More specifically:

- a "large exposure" is defined as any position equal to or greater than 10% of the Admissible Capital, as defined in Regulation No. 575 of 2013 (sum of Class 1 Capital and Class 2 Capital equal to or lower than one-third of Class 1 Capital). For Banca Farmafactoring, the Admissible Capital corresponds to its own funds;
- for banking groups and banks not belonging to a banking group, each risk position must not be greater than 25% of its own funds.

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

Qualitative assessment of credit exposure

The Group performs an impairment test on the credit portfolio in order to identify any impairment of its financial assets.

This analysis makes it possible to differentiate between performing and non-performing exposures, including in the latter category financial assets that show an individual risk of loss, while the remaining financial assets are classified in the performing category.

Performing assets

The assessment of performing assets applies to those receivables from customers that, while more than 90 days past due, show no objective indication of impairment at the individual level.

The assessment criteria of receivables purchased on a non-recourse basis at "amortized cost", which, in fact, is based on discounting to present value estimated future cash flows according to an estimate of the time to collection.

Even though the exposures are owed almost exclusively by the public administration, as in previous years, at the date of each annual financial statements or interim reports, the Group, in accordance with the provisions of IAS 39, carried out a collective impairment test of performing exposures.

In order to determine the Loss Given Default (LGD), BFF assumes the value proposed by the "Basel Accord Framework" for unsecured receivables owed by sovereign states, companies and banks as being equal to 45% of the Probability of Default (PD) found.

The collective assessment of the PD is performed by assigning a rating to the debtors (ASLs/AOs), corresponding to the credit rating assigned by the major rating agencies for the particular Region to which the debtors belong. The results are applied to the whole exposures not classified as non-performing Exposures At Default (EAD). As of December 31, 2016, the impairment test indicated a generic provision of about €3.2 million.

As regards Magellan, the generic provision is calculated, at this time, exclusively on private counterparties. In this case, Magellan carries out a write down of the portfolio by applying to the receivable's purchase value a percentage that varies according to the type of counterparty to which the exposure refers. Magellan also assesses whether to record individual impairments by analyzing the economic and financial situation of the debtor and the actual possibility of recovering the receivable.

Non-performing assets

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

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

Credit risk mitigation techniques

In order to ensure that the receivables purchased on a non-recourse basis are compatible with the derecognition principle, the risk mitigation clauses that could in some way invalidate the effective transfer of risks and benefits were removed from the relevant agreements.

Impaired financial assets

On July 24, 2014, the European Banking Authority (EBA) published the "Final draft implementing technical standards on supervisory reporting of forbearance and non-performing exposures" (EBA/ITS/2013/03/rev 1 7/24/2014): this document introduces new definitions for impaired assets and forbearance measures.

These definitions, which were adopted by the Bank of Italy with the seventh update to Circular No. 272 of January 20, 2015, call for impaired assets to be classified into the following categories:

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

Past due exposures

These are exposures with central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies that, at December 31, 2016 were more than 90 days past due.

More specifically, exposures towards central administrations and central banks, public sector entities and territorial entities, are considered past due when the debtor has not made any payments for any debt positions owed to the financial intermediary for more than 90 days.

At December 31, 2016, net past due exposures total €46.2 million for the entire Group. With regard to BFF, these exposures amount to €45.4 million, including €38.8 million with the Italian Public Administration (largely with territorial entities) compared to €9.8 million at December 31, 2015. The amount relating to public companies is €6.2 million and for Magellan is equal to €0.7 million (referring almost entirely to private counterparties).

Unlikely to pay

In the context of defining the different types of exposure, reference is made to so called "unlikely to pay" exposures and the relative probability of a failure to pay is assessed by us concerning the less-than-likely outcome of a full payment of owed amounts (both the principal and/or interest), without having to proceed in security enforcements. Such an assessment must be carried out without taking into account any sums (or instalments) due and not paid.

Therefore, it is not necessary to wait for a clear sign that there is an issue with payment (such as, a failure to pay) where the circumstances imply the risk of a debtors not being able to pay owed amounts. The exposures towards these retail customers may fall into the "unlikely to pay" category in relation to a single transaction, as long as we determine that the conditions for qualifying the total number of exposures towards a same debtor are not in place.

As of December 31, 2016, the Group recorded an amount of net unlikely to pay exposures equal to €3,614 thousand, all referable to Magellan's business.

Non-performing exposures

These are exposure with parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections recognized by the company.

At December 31, 2016, total non-performing exposures of the Group, net of write downs for estimated impairment losses, amount to €12.1 million. Gross non-performing exposures including the provision for late payment interest amount to €30.0 million and the relative impairment losses total €17.9 million with a coverage ratio of 59.8%.

The total non-performing exposures of the Company, net of write downs for estimated impairment losses, are €7.2 million at December 31, 2016.

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

The other non-performing positions total about €8.6 million, including positions amounting to about €1.7 million that were completely written off against the provision for impairment and consequently have a zero balance. BFF's remaining positions, totaling about €6.9 million, are written down based only on the time value, as they consist of positions secured by sureties and exposures with local government entities in distress (including €0.5 million already purchased as in default), for which no provisions were recognized, as the distressed condition is expected to be remedied resulting in the collection of 100% of the claim.

The portion of the late payment interest fund relating to non-performing positions, recognized when the estimate criteria changed, in 2014, amounts to €13.6 million and was completely written off. This refers mainly to the position with *Fondazione Centro San Raffaele del Monte Tabor* in liquidation and in a composition agreement with creditors.

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

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

Securitization transactions

The securitization transaction with certain members of the Deutsche Bank Group for €85 million was renewed in August 2016. This transaction, which involves the non-recourse sale of receivables owed by local healthcare entities (ASL) and public hospitals (AO), was carried out with the aim of diversifying funding activities.

Characteristics of the transaction

Pursuant to Law No. 130/99, the receivables were sold to an SPV, i.e., Farmafactoring SPV, which financed the purchase of the receivables by issuing securities for €85 million, underwritten by a member of the Deutsche Bank Group.

The renewed structure, after an amortization period that ended on the note payment date of August 25, 2016 (which made it possible to reduce the amount of the securities issued from the original €150 million to the current €85 million), provides for a new revolving period valid until the note payment date of July 25, 2017, during which revolving sales will be made against collections of receivables to maintain the contractually stipulated collateralization ratio.

The late payment interest, once collected by the SPV, is paid back to the relevant member of the Deutsche Bank Group, in case of available cash, when either the sale and/or requests for payment of collections of receivables sold to the SPV are higher than the overcollateralization ratio established by contract.

At the end of the revolving period there will be a two and a half years amortization period correlated to the performance of existing receivables collection during which the securities will be repaid.

Description of the risk profile

The Company, as the originator, maintains a role in the securitization transaction, even though it sells the receivables on a non-recourse basis.

This transaction calls for a credit enhancement mechanism through an overcollateralization ratio (equal to 137.93% of the amount of the securities issued) and a subordinated loan carried by BFF.

Following the renewal, the relevant member of the Deutsche Bank Group as the assignor, and the SPV, as the issuer, could have:

(i) terminated in advance the revolving phase at any time up to the January 2017 payment date (by sending the relative communication by December 31, 2016); or

(ii) only in the case of the Company, terminated the program by buying back all the outstanding receivables by the January 2017 payment date during the revolving phase (by sending the relative communication by December 31, 2016), or at any time during the amortization period.

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

At the end of the transaction, subsequent to the repayment of the securities and other senior transaction expenses, all the remaining amounts from the collection of the receivables sold, including late payment interest, will belong to the Company, in its capacity as underwriter of the subordinated loan.

Because of this condition, together with the Company's right to buy back and/or substitute the receivables at any time, all of the risks and benefits of the transaction were not transferred to the assignee but remained with the Company. Consequently, the securitization risk is included in the credit risk and the assets are included in the Group consolidated accounts.

Sub-servicer activity

We have a mandate for the recovery and collection of receivables on behalf of the servicer Zenith Service S.p.A.

Following the sales of receivables made during the revolving phase of the transaction, the nominal outstanding amount of receivables as of December 31, 2016, 2015 and 2014 was about €140.3 million, €250.5 million and €227 million, respectively.

Liquidity risk

Liquidity risk is the possibility that we will be unable to fulfil our payment obligations due to the inability to access funds on the financial market, or limits that are present which restrict the disposal of assets. This risk also includes the inability to find adequate new funding resources, in terms of amount and cost according to operating necessities, which would force us to slow or halt the development of activities or sustain excessive funding costs to meet our obligations, with significant adverse impacts on the profits of our business.

Liquidity risk may be manifested through the following risk components:

- Liquidity Mismatch Risk: the risk of mismatch between the amounts and/or the timing inflows and outflows.
- Liquidity Contingency Risk: the risk that unexpected future events may require a materially larger amount of liquidity than the business currently requires in a business-as-usual scenario. This risk may arise from events such as a failure to renew loans, the need to finance new activities, the difficulty in disposing of liquid assets or in obtaining new loans in the event of a liquidity crisis;
- Market Liquidity Risk: the risk of incurring losses on liquidating assets that would be considered liquid under normal market conditions;
- Operational Liquidity Risk: the risk of being unable to fulfil payment obligations due to errors, violations, interruptions or damages due to internal processes, persons or external events, even though we are in a situation of financial stability; and
- Funding Risk: the risk of incurring a loss due to the inability to draw from sources of financing at an economical cost to meet obligations and/or the possible increase in the costs of funding due to a change in rating (internal factor) and/or a wider gap in the credit spreads (external factor).

Our liquidity needs are monitored by the Finance and Credit Department and centralized at a Group level in order to ensure an efficient management of *short* and *medium-to-long* term liquidity, both in terms of returns and maintaining a sustainable ratio between *inflows* and *outflows*, in compliance with the Bank of Italy's regulations for prudential supervision purposes.

The following table shows the main liquidity indicators of the Group as of December 31, 2016, 2015 and 2014.

	As of December 31,		
	2016	2015	2014
	(In percentages)		
Liquidity Indicators			
Loan to deposit ratio	171.6%	225.6%	223.8%
Liquidity coverage ratio (LCR)	502.0%	391.3%	351.3%
Regulatory minimum required LCR	70.0%	60.0%	n.a.
Net stable funding ratio (NSFR)	115.0%	112.0%	130.7%

With reference to the Treasury Department, our internal policies set out the criteria adopted for the management of liquidity risk, defined in relation to our specific operations and potential sources of liquidity risk, and the operating procedures through which we monitor the abovementioned risk, including a diversification of short term assets (operational liquidity management) and medium term assets (structural liquidity management).

Regarding our policy on the management of *short* term liquidity, we have established specific monitoring activities, including:

- execution and monitoring of payment and collection activities;
- analysis of our *short* term liquidity position;
- execution of *Asset Liquidity Management* operations in the *short* term; and
- arrangement of credit lines from third-party banks.

As regards our policy on the management of *medium-to-long* term liquidity, we have established specific monitoring activities, including:

- analysis and control of our financial position by monitoring the so called *gap analysis*;
- activation, execution and management of the *medium-to-long* term funding operations;
- management of the economic terms and contractual provisions of our *medium-to-long* term funding;
- management of hedging derivative instruments.

In accordance with Bank of Italy's regulations concerning prudential supervision, we have adopted a "risk management policy for the Group", a treasury and finance regulation, and an emergency plan or "contingency funding strategy" (contingency funding plan according to Bank of Italy Circular No. 285/2013) aimed at maintaining a high degree of diversification in order to reduce liquidity risk, and specifying the organizational units responsible for the operational and structural management of liquidity risk and clarifying the measures they devise. The aforementioned documents have been updated following the incorporation of Magellan into the Group. The internal regulations set out:

- the criteria for managing liquidity risk, defined in relation to our specific operations and the potential sources of liquidity risk;
- the operating procedures through which we monitor this risk, which include a diversification of short term assets (operational liquidity management) and medium term assets (structural liquidity management);
- the criteria for defining and carrying out *stress tests*, aimed at measuring in quantitative terms our capacity to meet potential adverse events that could affect the level of liquidity risk; and
- the contingency funding plan that defines the strategies and organizational and operating procedures for managing 'early warning', 'warning' and 'crisis' situations, as well as who is responsible for them.

In order to ensure the management and control of liquidity risk, we have adopted a governance model based on the following principles:

- separation between the processes for managing liquidity and processes for controlling liquidity risk;

- developing the processes for the management and control of liquidity risk, consistent with the hierarchy structure and through a delegation of responsibilities;
- sharing of the decisions and clarifying the responsibilities of management and control units;
- conforming the management and monitoring processes of liquidity risk with prudential supervisory indications.

Stress tests on liquidity risk were conducted for the purpose of evaluating the potential impacts of stress scenarios on our financial conditions.

The Liquidity Coverage Ratio of the Group shows an increasing trend between December 31, 2014 and December 31, 2015, passing from 351.3% to 391.3%, and an increasing trend between December 31, 2015 and December 31, 2016, passing from 391.3% to 502%. Excluding Magellan's contribution, the Liquidity Coverage Ratio was equal to 651% as of December 31, 2016. The regulatory limits concerning the Liquidity Coverage Ratios are equal to 60% for 2015, 70% for 2016, 80% for 2017, 90% for 2018 and 100% for 2019.

As of December 31, 2016, the Group's NSFR is equal to 115.3%. In relation to the Net Stable Funding Ratio, the regulatory limit will enter into force in 2018 and it is set at 60% for 2018 and 100% for 2019. The relayed data concerning both indicators have always been above the thresholds set by the regulator (and therefore are above the thresholds provided by the Bank of Italy Circular No. 285 of 2013).

Counterbalancing Capacity

The counterbalancing capacity represents the Group's capacity to cover short-term costs through immediate liquidity from their asset balance sheet.

The total amounts available for the Group's counterbalancing capacity, as of December 31, 2016, amounted to €200.5 million and consist exclusively of bonds issued by the Italian government with an equivalent value of €205.6 million.

	Short term liquidity		
	T+1	**T+20**	**T+60**
	(in € millions)		
Cash Flow	135	(834)	(1,124)
Counterbalancing Capacity (CBC)	212	1,124	1,360
Difference	347	290	236

In the table below are the monthly amounts held in available bonds for counterbalancing capacity.

Net of ECB haircut	**Total amount available in Counterbalancing Capacity**
	(in € millions)
January-16	126
February-16	131
March-16	128
April-16	126
May-16	111
June-16	111
July-16	112
August-16	112
September-16	113
October-16	112
November-16	111
December-16	206

Operational risk

Operational risk is defined as "the risk of loss resulting from inadequate or failed internal processes, human resources and systems or from external events. This type of risk includes, among other things, losses from fraud, human error, interruptions, system unavailability, contractual breaches, natural disasters. Operational risk includes legal risk, but excludes strategic and reputational risk ".

With the goal of making more efficient the management of operational risks, the Group has set up a system and a qualitative process of self-assessment aimed at verifying the adequacy of Internal Capital determined to face of this type of risk.

In particular, the Group has set up a process of detection and risk assessment based on qualitative methodologies of risk self-assessment (so called "risks and controls map") in order to achieve greater awareness of exposure to operational risk, timely detection of inefficiencies in the organization and the consequent establishment of appropriate risk mitigation strategies.

The monitoring of the risks and controls map is assured by the Risk Management Function with the support of the Risk Management Reference Person and the Head of the Risk Management Function of the Subsidiaries.

The Group uses the Basic Approach (BIA-Basic Indicator Approach) for calculating the capital requirement for operational risk.

In specific, the determination of Internal Capital facing operational risk by applying, according with the Supervisory Rules, a regulatory coefficient to an indicator of the company's turnover (Relevant Indicator).

The capital requirement is expressed by the following formula:

$$BIA = \sum(IR\,1\ldots n * \alpha)/\,n$$

Where:

- *IR:* Relevant indicator, if positive, over the previous three observations;
- *n:* number of years in which gross income is positive;
- *α:* 15% established by the Basel Committee that reports, to the sector as a whole, the level of capital required and of the indicator.

The Supervisory Rules provide, therefore, that the capital requirement in the Base Approach is equal to 15% of the average of the last three observations of the Relevant Indicator annually, referring to the situation at end of the exercise.

The Company, in order to better monitor operational risk, defined a macro-process of Operational Risk Management (hereafter also "ORM") aimed at defining the principles, activities, roles and relating responsibilities in the matter of operational risks management at Group level. For the monitoring of operational risks, being them intrinsically associated with the running of company's processes, the Group assigns a responsibility direct and common to all staff and, in particular, to the staff entrusted with the responsibility of a Corporate Structure. Accordingly, all of the Group's Corporate Structures, each for the respective scope of competence, are called to actively commit to identifying operational risks on an on-going basis, reducing the likelihood of them occurring and/or the impact of operation risk events and cooperating with the structures in charge of the management and control process of the same risks. With regard to Magellan, as of the date of this Offering Circular the assessment process relating to Operational Risk Management is ongoing.

To control the above risks, we adopt new measures when necessary for the management of risks such as money laundering, health and safety in the workplace and information security.

On the basis of the above methodology, the capital requirement for operational risk as of December 31, 2016, 2015 and 2014 is equal to €29.8 million, €24.5 million and €22.8 million respectively.

Counterparty and Credit risk

Counterparty risk represents the risk that a counterparty will not perform its obligations under the agreements.

Credit risk represents the possibility of incurring losses due to a debtor's default and insolvency. It is linked to the possibility that an unexpected change in the creditworthiness of the debtor, towards which an exposure exists, generates a corresponding decrease in the value of the credit position.

Our counterparty risk is primarily due to repo transactions with *Cassa Compensazione e Garanzia*. To measure the counterparty risk in repo transactions the simplified method is used so that the part of exposure covered by collateral is assigned a weighting factor that corresponds to the weighting factor assigned to the instrument used as collateral.

Most of our assets consist of Government Bonds and factoring assets, the latter are regulated by the Italian Civil Code and by Law No. 52 of February 21, 1991 and subsequent laws, comprised of a plurality of financial services (articulated in various ways) through the sale of trade receivables on both a "with" recourse and "without" recourse basis. As of December 31, 2016, our total weighted exposure to credit risk was €82,998 million.

The purpose of exposure relating to government bonds, almost entirely classified in the HTM portfolio is to optimize the cost of funding.

Such debt securities have a fixed interest rate (BOT, BTP, CTZ) and their maturity matches that of the unsecured and committed funding. They have been classified in the HTM portfolio and therefore they are accounted at their amortized cost in our accounts in accordance with the effective rate of return.

Given the investments in government debt securities, during the financial year, we refinanced: (i) by participating in the open market operations program with the ECB managed by the Eurosystem (currently, in full allotment until December 31, 2017), and (ii) through repo transactions, mainly on the MTS platform managed by the *Cassa Compensazione e Garanzia*.

As of December 31, 2016, the government bonds portfolio is financed, for €1,770.5 million, by repo transactions, while no ECB financing is in place.

The AFS portfolio (amounting to €375 million as of December 31, 2016) is composed of government debt securities (bonds) purchased by BFF, to face the liquidity risk and optimize the cost of funding. These securities have a floating interest rate and will reach maturity in five years. Their evaluation is carried out at fair value, the interest calculated in accordance with their rate of return being recorded in our profit and loss.

As of the date of this Offering Circular, the face value of the securities is compared to their fair value and the difference is recorded in our net income (specifically, in the evaluation reserve).

On January 24, 2017, the Bank of Italy published a communication relaying certain clarifications concerning the regulatory framework of rules relating to non-incurred profits and losses, which derive from exposures towards central public administrations classified as AFS. The Bank of Italy specified that, while a formal clarification on this issue is still to be issued, less significant banks may continue recording in net income.

In accordance with the provisions of Bank of Italy Circular 262 of December 22, 2005—"*The Financial Statements of Banks: layout and preparation",* and subsequent updates, whose definitions are established in Bank of Italy Circular 272 of July 30, 2008 "*Matrix Accounts*", and subsequent updates, we have divided our assets between "performing" and "impaired".

Performing assets include:

- Past due not impaired exposures: exposures past due more than 90 days, which are not considered impaired according to prudential regulations, and exposures that are past due and/or over the limit by not more than 90 days; and
- Not impaired exposures: exposures not falling within the preceding category.

Impaired assets include:

- Past due exposures: these are exposures to central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies which, as of December 31, 2015, are past due more than 90 days; in particular, exposures to central administrations and central banks, public sector entities and territorial entities, are considered past due when the debtor has not made any payment for any debt positions due to us for more than 90 days;
- Unlikely to pay: this type of exposure represents our assessment that, without recourse to actions such as the realization of collateral, it is unlikely that the debtor will pay (principal and/or interest) its credit obligations in full. This assessment is conducted regardless of the existence of any past due and unpaid amounts (or instalments); and
- Non-performing exposures: these refer to exposures to parties that are in a state of insolvency or in similar situations, regardless of any estimates of loss formulated by us.

With regard to the method adopted in determining accounting impairment adjustments, we have carried out an analysis of our assets portfolio for the purpose of identifying any impairment of financial assets.

This analysis made it possible to distinguish between "performing" and "non-performing" assets; included in the non-performing category are financial assets that show an individual risk of loss, while the remaining financial assets are classified in the performing category.

Performing assets include those assets from customers which, although past due more than 90 days, show no objective indication of loss at an individual level.

Two different measurement approaches have been adopted depending on the classification of the exposure.

As regards non-performing assets, we determine the probable impairment losses to be recorded through internal valuations and external legal opinions on the individual credit positions.

The following table sets forth the main indicators concerning the Group's credit quality, computed based on our consolidated statement of financial position as of December 31, 2016 and 2015.

	As of December 31,		
	2016	2015	2014
	(in € thousands)		
Credit quality			
Gross non-performing exposures performing when purchased	29,032	17,010	19,699
Gross non-performing exposures non-performing when purchased	971	812	—
Gross unlikely to pay exposures	3,715	—	62
Gross past-due exposures	46,250	43,310	9,795
Net non-performing exposures performing when purchased	11,573	1,764	2,936
Net non-performing exposures non-performing when purchased	492	743	—
Net unlikely to pay exposures	3,614	—	62
Net past-due exposures	46,167	43,234	9,779
Total gross impaired loans	**79,968**	**61,132**	**29,556**
Total net impaired loans	**61,847**	**45,741**	**12,777**
Net non-performing exposures performing when purchased / due from customers	0.5%	0.1%	0.2%
Net non-performing exposures non-performing when purchased / due from customers	0.0%	0.0%	0.0%
Net impaired exposures performing when purchased / due from customers(1)	2.5%	2.3%	0.8%
Net impaired exposures non-performing when purchased / due from customers(1)	0.0%	0.0%	0.0%
Losses on loans and receivables / due from customers-factoring	0.6%	0.1%	0.2%

(1) Net impaired exposures are the sum of net non-performing exposures, net unlikely to pay exposures, net past-due exposures.

The following table shows the same indicators on the credit quality set forth above calculated on our balance sheet as of December 31, 2016, excluding the balances of Magellan in order to show the impacts of the Magellan Acquisition.

	As of December 31, 2016
	(in € thousands)
Credit quality	
Gross non-performing exposures performing when purchased	22,210
Gross non-performing exposures non-performing when purchased	971
Gross unlikely to pay exposures	—
Gross past-due exposures	45,511
Net non-performing exposures performing when purchased	6,701
Net non-performing exposures non-performing when purchased	492
Net unlikely to pay exposures	—
Net past-due exposures	45,429
Total gross impaired loans	**68,692**
Total net impaired loans	**52,622**
Net non-performing exposures performing when purchased / due from customers	0.3%
Net non-performing exposures non-performing when purchased / due from customers	0.0%
Net impaired exposures performing when purchased / due from customers	2.6%
Net impaired exposures non-performing when purchased / due from customers	0.0%
Losses on loans and receivables / due from customers-factoring	0.4%

For the years 2014 through 2016, the Group's coverage ratio of non-performing loan generally has been lower than the market, primarily due to the fact that the Group's debtors are almost exclusively public or joint stock companies owned by the public sector and, as such, carry a lower default risk than retail and corporate debtors. As of December 31, 2016, the Group's coverage ratio, although slightly reduced, is higher than that of their competitors'. This decrease is primarily due to the increase in receivables purchased from municipalities, provinces and mountain communities. In the case of those non-performing loans towards the abovementioned debtors, we do not proceed to set up any kind of provision or write-down, as we wait for the entity to make a financial recovery in order to obtain the entirety of the owed amounts, since there is no liquidation risk.

The following table shows the indicators of net non-performing loans / assets (including net income), large exposures / net loans to customers and credit risk cost as of December 31, 2016 (for the Group and the Group excluding Magellan) and as of December 31, 2015 for the Group.

	As of December 31, 2016			
	Group	Group excluding Magellan	As of December 31, 2015	As of December 31, 2014
Solvency indicators				
Indicators				
Net non-performing loans / shareholders' equity (including net profit)	3.62%	2.16%	0.76%	0.94%
Large exposures / net loans due from customers[(1)]	10.3%	11.3%	13.5%	13.6%
Large exposures / total assets	5.4%	5.5%	8.0%	7.0%
Credit risk cost[(2)]	1.0%	1.0%	1.0%	1.25%
Net value adjustments/writebacks on impaired loans and receivables/net loans due from customers	0.09%	0.05%	0.06%	0.00%

(1) Ratio between the weighted value of the large exposures and the value of net loans to customers.

(2) Ratio between value adjustments on receivables and loans (balance sheet amount) and the value of net loans due from customers.

The following table shows the breakdown of Large Exposures by country.

	As of December 31,		
	2016	2015	2014
	(in € thousands)		
Large exposures			
Italy	**226,791**	**253,633**	**182,096**
National Healthcare Service	146,589	177,737	168,754
Territorial Entities	—	13,521	—
Authorized Intermediaries	79,402	29,674	—
Clearing Systems	800	89	13,342
Other counterparties	—	32,612	—
Spain	**5,377**	**10,942**	**29,371**
Territorial Entities	5,377	10,942	29,371
Poland	**25,283**	**—**	**—**
National Healthcare Service	25,283	—	—
Total	**257,451**	**264,575**	**211,367**

Furthermore, with reference to our stand alone credit quality as of December 31, 2016, 2015 and 2014: (i) the ratio of gross loans and gross impaired loans to total loans amounted to 3.1%, 3.1%, and 1.9%, respectively (ii) the ratio of gross non-performing loans to gross loans amounted to 1.1%, 0.9% and 1.3%, respectively; (iii) the coverage ratio of impaired loans amounted to 23.4%, 25.2% and 56.8%, respectively; (iv) the coverage ratio of non-performing loans is 69.0%, 85.9% and 85.1%, respectively and (v) the ratio of risk-weighted assets to loans to customers (RWA density) amounted to 65.1%, 61.7% and 76.2%, respectively.

The ratio of impaired loans and non-performing loans to consolidated net loans is equal to 2.5% and 0.5% as of December 31, 2016, 2.3% and 0.1% as of December 31, 2015. These values are the same as those at the parent level (which is the consolidation perimeter for the purposes of the CRR).

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

The following table shows the main indicators of creditworthiness determined on the basis of Magellan's consolidated results as of December 31, 2016, 2015 and 2014.

	As of December 31,		
	2016	2015	2014
Risk Ratios			
Impaired loans/Net loans to customers	2.5%	2.3%	0.8%
Impaired loans coverage ratio	22.7%	25.2%	56.8%

The impaired loans coverage ratio for the Group, excluding Magellan, was equal to 23.4% as of December 31, 2016.

Interest rate risk

Pursuant to Circular 285, Part One, Title III, Chapter 1, Annex A ("*Risks to be subjected to assessment in the ICAAP*"), the risk of movements in interest rates is defined as "*the risk arising from potential movements in interest rates*".

In this context, the Finance and Credit Department of the parent company, with the support of the homologous structure of the Subsidiaries, monitors interest rate movements risk at Group level ensuring that the market base rate of funding is correlated to the employment rate according to the limits laid down by the BOD, implementing fixed-rate loans and operations tools derivatives with only used to hedge (no position can be taken for speculative purposes).

For the assessment of the risk arising from potential movements in interest rates, the Group adopts the regulatory methodology governed by Annex C of the Circular 285/2013 (Part One, Title III, Chapter I). The various items exposed to this type of risk are allocated according to the criteria set out in the Circular of the Bank of Italy 272 "Manual for drawing up the accounts of the matrix" and in Circular 115 "Instructions for preparing supervisory reports on a consolidated basis of credit institutions", except for accounts overdrafts and demand deposits, which are distributed in the "visible range 225,0", for a fixed rate of 25% (so-called "non-core"). For the remaining amount (the "core component"), in the successive eight time bands (from "up to 1 month" to "4-5 years") in proportion to the number of months contained in them. In the calculation of Internal Capital under ordinary conditions it's referred to the annual movements in interest rates occurring in a 6-year period of observation, considering either the 1st percentile (lower prices) or 99° (upward) and ensuring the constraint of not negativity rate.

The capital absorption in respect of interest rate change risk is determined monthly in the context of first-level checks by the Finance and Credit Department of the parent company and the homologous structure of the Subsidiaries. In addition, the Risk Management Function, on a quarterly basis, monitors, with the support of the Risk Management Reference Person and the Head of the Risk Management Function of the Subsidiaries, the performance of the risk index and the Internal Capital estimated in light of this type of risk

The interest rate management framework as of December 31, 2016, points to a potential loss in the present value of cash flows, in the event of a market shock, as it refers to the annual movements in interest rates occurring in a 6-year period of observation, considering either the 1st percentile (lower prices) or 99° (upward) and ensuring no negative rate increase in interest rates, with a capital absorption equal to €9.3 million.

Foreign exchange risk and exchange rate risk

Foreign exchange risk is defined as the possibility that foreign exchange rate fluctuations produce significant changes, both positive and negative, in balance sheet totals. The main sources of exchange rate risk come from foreign currency loans and deposits held by corporate and retail customers; purchase of securities, equity investments and other financial instruments in foreign currencies; converting assets, liabilities and income from branches and subsidiaries outside Italy into Euros; trading in foreign currencies and banknotes; and collection and/or payment of interest, commissions, dividends and administrative costs in foreign currencies.

Our foreign exchange risk deriving from exposures in foreign currencies in the banking book is systematically transferred from the relevant business units to our Finance and Credit Department in order to eliminate such risk before maturity. Our subsidiaries carry out similar risk containment measures for their own banking books. We mitigate foreign exchange risk by raising funds in the same currency as the assets we hold.

Exchange rate risk is represented by the Banking Group's exposure to fluctuations in exchange rates, which include transactions in foreign currency and those that provide for indexation clauses linked to exchange rate trends of a specific currency. As of December 31, 2016, our asset portfolio is expressed in euros, Polish zloty and Czech koruna. Therefore, we do not have any risk connected with the volatility of foreign currencies.

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

Exchange rate risk is hedged by instruments that are linear and without optional components such as forex swaps and forex forwards. This offers the Group an adequate hedging of exchange rate risk on the loans denominated in a foreign currency which extends to the subsidiaries that carry out business transactions using currencies other than the euro.

The companies of the Group use the same instruments mentioned above to hedge exchange rate risk, after approval from the Company.

Market risk

Market Risk represents the risk of losses deriving from adverse movements of market prices (stock prices, interest rates, exchange rates, commodity prices, risk factors volatility, and so on) as regards the trading book for supervisory purposes (position, settlement, concentration, exchange and commodity positions risks).

This risk is relevant for the Group due to use of derivative instruments aiming at reducing potential adverse effects deriving from interest rates movements (for the share of instruments, not classified as "hedging" under an accounting point of view) and for the exposure to the foreign-exchange risk.

The Group does not carry out trading activities on financial instruments; the only positions included in the trading book for supervisory purposes are represented by derivative contracts on interest rates that, although used with the exclusive purpose of hedging interest rate risk, relating to the purchase activity of credits on a definitive basis, do not fall within the accounting notion of "hedging instrument". Market risk recognized by the Group, accordingly, makes reference to position risk relating to said derivative financial instruments; the limited exposure to risk does not require the use of control tools additional to those dedicated to ordinary management and those identified with reference to interest rate risk.

The regulation identifies and regulates the treatment of the various types of market risk in reference to the regulatory trading book, in which there were no outstanding positions as of December 31, 2016.

Guarantees, Liabilities and Encumbered Assets

With reference to the supervisory provisions relating to "asset encumbrance" we have adopted a specific internal policy, aimed at defining the operational areas linked to the possibility of encumbering the on-balance sheet assets shown in our Consolidated Financial Statements, and a procedure for the identification, management and monitoring of encumbered assets, their related risk and the internal functions and bodies involved in such a process.

The operational areas linked to the possibility of encumbering the on-balance sheet assets refer to: (i) government securities, that may be used for the collection of short-term liquidity through the participation in ECB open market operations or the subscription of repurchase agreements with *Cassa Compensazione e Garanzia* through the MTS platform or Over The Counter (OTC); (ii) trade receivables and/or receivables deriving from financial activities that are "ECB eligible", that may be used to conduct refinancing operations with the ECB, according to the rules on eligibility established by the ECB itself; (iii) trade receivables and/or receivables deriving from financial operations that could potentially be encumbered as underlying assets for the collection of medium-to-long term liquidity, typically as a collateral for securitizations or secured funding operations; and (iv) guarantee funds and margins placed on settlement systems and central counterparties.

The type of risk which may have a major impact on our encumbered assets is represented by the risk of deterioration of their creditworthiness, in respect of which qualitative and quantitative limits have been set.

The following chart shows the amount of our guarantees, liabilities and encumbered assets as of December 31, 2016, 2015 and 2014.

	As of December 31,		
	2016	2015	2014
	(in € thousands)		
Guarantees provided and commitments			
Financial guarantees provided to banks	22	—	22
Irrevocable commitments to disburse funds towards customers (uncertain use)	127,986	117,461	11,280
Total	**128,008**	**117,461**	**11,302**
Assets pledged to secure the Group's liabilities and commitments	—	—	
Available-for-sale financial assets	185,165	326,029	289,717
Held-to-maturity financial assets	1,623,209	822,350	744,262
Loans and receivables	630,024	651,515	495,260
Total	**2,438,398**	**1,799,894**	**1,529,239**

Irrevocable commitments to disburse funds towards customers (uncertain use) related to commitments to purchase receivables that are already defined.

With reference to the assets pledged to secure the Group's liabilities and commitments as of December 31, 2016:

- available-for-sale and held-to-maturity financial assets are represented by government securities assigned as a collateral during operational activities with the ECB and by repo transactions; and
- loans and receivables are composed of €136,717 thousand of non-cancelled transferred receivables in the ongoing securitization, €332,168 thousand of receivables assigned as collateral to financing operations with Ifitalia and UniCredit Factoring and €160,476 thousand relate to activities of the Magellan Group.

Unencumbered assets

Disclosure of encumbered and unencumbered assets by banks is required by Bank of Italy Circular 285, in the manner established by the European Banking Authority guidelines of June 27, 2014.

In particular, the purpose of the required disclosure is to assess the institutions' recourse to types of secured funding (for example, guaranteed bank bonds, repurchase agreements, credit lines from central banks).

Encumbered assets are those used as collateral, subject to limitations on withdrawal or otherwise reserved to improve credit (credit enhancement).

Beginning from the disclosure report as of December 31, 2016, the information published on encumbered and unencumbered assets is calculated on the basis of the average values of the quarterly data relating to the year 2016, as established in the EBA/GL/2104/03 guidelines.

Disposable Unencumbered Assets

The amount of *unencumbered assets* available for the Group, that could be used as collateral to obtain additional financing both on the market and in the context of refinancing operations with the ECB, or with respect to the necessary financial resources to face the additional demand of collateral in circumstances of stress (a "contingent encumbrance"), valued at €185,118 and €103,421 thousand as of December 31, 2016 and 2015, respectively, and pertains to government securities classified in our AFS portfolio.

Leverage risk

As set out in the Commission Delegated Regulation (EU) 2015/62, we calculate the leverage ratio at the end of every quarter on a consolidated basis. This ratio is calculated as the ratio of Tier 1 Capital and a denominator based on non-weighted existing assets by their degree of risk.

The risk of excessive leverage is treated consistently with the rationale adopted for the risk appetite framework, by a current and prospective assessment carried out on the values assumed by the indicator, included in the set of indicators used by us to determine its capital policy correlated to the level of asset growth.

The Group's leverage ratio as of December 31, 2016, 2015 and 2014 was equal to 4.9%, 6.1% and 7.2% respectively, all of which were above the minimum 3% threshold set out in the amendment to "*Basel III Leverage Ratio Framework and Disclosure Requirements*" published on January 11, 2014 by the Basel Committee. This threshold will come into force in 2018 and does not constitute a minimum regulatory amount, rather an approximate threshold suggested by the Basel Committee.

The table shows that the leverage ratio of the Group as of December 31, 2016 is shown with reference to the upper limits of the Group from the BFF Lux Holdings ratings, in line with the CRR regulation.

	As of December 31, 2016		As of December 31,		
	Group	Group excluding Magellan	2016	2015	2014
	(In percentages)				
Leverage ratio	4.9%	5.9%	4.9%	6.1%	7.2%

The financial leverage indicators' downward trend over the course of the period in question is primarily due to the increase in the Group's business, which has predicated an increase in activity. Following the supervisory reporting of December 31, 2016, the Magellan Acquisition has heightened this effect, and, following the recognition of goodwill, has also caused a loss of around €22.1 million to the Group's consolidated own funds, which in turn has an effect on the indicators themselves.

Magellan Risk management

Credit risk

The purpose of credit risk management is to build a strong and balanced portfolio of financial assets to minimize the risk of impaired loans and at the same time generate the expected profit margin and the expected value of the loan portfolio.

Liquidity risk

The liquidity risk is defined as the risk of not being able to meet payment obligations due to the inability to raise funds on the market and to dispose of its assets, and is managed through the financial planning of the Group.

The liquidity management activity is subject to the direct control of the Company. The Treasury structure of Magellan reports functionally to the structures in the Finance and Credit Department, as well as which the Risk Management Department of Magellan reports functionally to the Risk Management Department of the Company.

Magellan, therefore, can manage liquidity prior to authorization and under the control of the Parent.

Liquidity risk is measured by the Risk Management Department of the parent company, with the support of the Finance and Credit Department of the parent company, the Treasury structure of Magellan and the Head of Risk Management of Magellan.

Market risk

Market risk is the risk of loss arising from adverse changes in market prices (stock prices, interest rates, exchange rates, etc.) with respect to the trading portfolio for supervisory purposes (position risk, regulation, concentration, currency and commodities position).

Magellan does not carry out trading activities on financial instruments; the only positions included in the trading portfolio are represented by derivative contracts which, although used for the sole purpose of hedging against market risk, may not fall within the hedging activities in accordance with IFRS.

As for Exchange Risk, the coverage is expected to cover positions in foreign exchange related to the core business carried out in the Czech Republic.

The management of market risk of Magellan and its subsidiaries is subject to the direct control of the Company. The Treasury structure of Magellan reports functionally to the relevant structures of the Finance and Credit Department of the Company, as well as which there is the same functional reporting dynamic between the Risk Management Department of Magellan and that of the Company.

Strategic risk

Magellan is strongly influenced by the macroeconomic environment in which it operates, including steps taken by the legislature and their competitors' activities. The overall structure of the healthcare system and the legal environment significantly affect the activities of Magellan and its products. Possible regulatory changes are in any case difficult to predict for the BFF Group. We believe, however, that the business diversification in terms of markets (expansion to foreign markets) and sectors (the introduction of new products), can mitigate risks related to new legislative developments that apply to the public sector, and expected changes in terms of the financing of the healthcare system.

The risk management activities by Magellan are subject to the direct control of the Company. Certain corporate functions, including Risk Management, Treasury and Administration, are in fact in a functional relationship status compared to our correspondent business functions and their regulations are approved in advance by the Company itself.

SELECTED STATISTICAL INFORMATION

The following tables set forth certain selected statistical and other information regarding our banking operations for the years ended December 31, 2016, 2015 and 2014 derived from our Consolidated Financial Statements. See "*Presentation of Financial and Other Information*".

Average balances and interest rates

Unless otherwise disclosed, the following table presents average balances of assets, liabilities and shareholders' equity of our Group for the years ended December 31, 2016, 2015 and 2014 and, for interest earning assets and interest bearing liabilities, provides the amount of interest earned or paid and the average rate of such interest for such asset or liability, as applicable for each period.

	As of December 31,								
	2016			2015			2014		
	Average balance[1]	Interest	Average yield/ rate	Average balance[1]	Interest	Average yield/ rate	Average balance[1]	Interest	Average yield/ rate
	(in € thousands, except percentages)								
Assets									
Interest earning assets:									
Financial instruments excluding loans	1,666,364	3,994	0.2%	1,372,168	5,848	0.4%	816,337	4,059	0.5%
Due from Banks	82,628	93	0.1%	86,505	144	0.2%	178,651	987	0.6%
Due from customers	2,095,942	186,138	8.9%	1,594,721	155,952	9.8%	1,348,153	247,505	18.4%
Total interest earning financial instruments	**3,844,934**	190,225	4.9%	**3,053,394**	**161,944**	**5.3%**	**2,343,141**	**252,551**	**10.8%**
Other assets[2]	6,108	—	0.0%	5,209	2	0.0%	9,515	—	0.0%
Total assets	**3,851,043**	**190,225**	4.9%	**3,058,603**	**161,946**	**5.3%**	**2,352,656**	**252,551**	**10.7%**
Liabilities									
Interest bearing liabilities:									
Due to banks	475,681	6,564	1.4%	524,824	7,688	1.5%	932,467	24,621	2.6%
Due to customers	2,402,234	6,557	0.3%	1,626,805	8,571	0.5%	645,092	3,491	0.5%
Debt securities in issue	557,250	16,968	3.0%	452,258	12,579	2.8%	451,496	15,631	3.5%
Financial liabilities held for trading	74	930		—	60	—	180	461	256.1%
Total interest bearing liabilities	**3,435,239**	31,019	0.9%	**2,603,887**	**28,898**	**1.1%**	**2,029,235**	**44,204**	**2.2%**
Other liabilities[2]	101,101	—	0.0%	116,920	—	0.0%	73,797	36	0.0%
Hedging derivatives	35	1	2.8%						
Total liabilities	**3,536,340**	**31,020**	0.9%	**2,720,807**	**28,898**	**1.1%**	**2,103,032**	**44,240**	**2.1%**
Net interest margin	**—**	**159,205**	4.1%	**—**	**133,048**	**4.3%[3]**	**—**	**208,311**	**8.8%[3]**
Loan deposit rate spread			8.1%	—	—	8.8%[4]	—	—	16.6%[4]
Interest bearing asset and liability spread			4.0%	—	—	4.2%[5]	—	—	8.6%[5]

(1) Average of end-of-three months balances.

(2) Also including hedging derivatives for an average balance of €33 thousand referred only to the year ended December 31, 2014.

(3) Difference between average yield/rate on total assets and on total liabilities and shareholders' equity.

(4) Difference between average yield/rate on loans and receivable with customers and securities.

(5) Difference between average yield/rate on total interest earning assets and on total interest bearing liabilities.

The following table sets forth the Group's average balances for assets, liabilities and shareholders' equity for the years ended December 31, 2015 and 2014, as well as the interest income recognized and the interest expenses paid in connection with the abovementioned assets and liabilities determined using the normalized income statement data. It should be noted that data for the year ended December 31, 2014 are normalized to account for the effects of the change in the valuation estimate concerning the recoverability of late payment interest, as if the change had been applied from December 31, 2011

	As of December 31,					
	2015			2014		
	Average balance(1)	Interest (standardized)	Average yield/rate (standardized)	Average balance(1)	Interest (standardized)	Average yield/rate (standardized)
	(in € thousands, except percentages)					
Assets						
Interest earning assets						
Financial instruments excluding loans	1,372,168	5,848	0.4%	816,337	4,059	0.5%
Due from Banks	86,505	144	0.2%	178,651	987	0.6%
Due from customers	1,594,721	155,952	9.8%	1,348,153	146,923	10.9%
Total interest earning financial instruments	**3,053,394**	**161,944**	**5.3%**	**2,343,141**	**151,969**	**6.5%**
Other assets(2)	5,209	2	0.0%	9,515	—	0.0%
Total assets	**3,058,603**	**161,946**	**5.3%**	**2,352,656**	**151,969**	**6.5%**
Liabilities						
Interest bearing liabilities:						
Due to banks	524,824	7,688	1.5%	932,467	24,621	2.6%
Due to customers	1,626,805	8,571	0.5%	645,092	3,491	0.5%
Debt securities in issue	452,258	12,579	2.8%	451,496	15,631	3.5%
Financial liabilities held for trading	—	60	—	180	461	256.1%
Total interest bearing liabilities	**2,603,887**	**28,898**	**1.1%**	**2,029,235**	**44,204**	**2.2%**
Other liabilities(2)	116,920	—	0.0%	73,797	36	0.0%
Total liabilities	**2,720,807**	**28,898**	**1.1%**	**2,103,032**	**44,240**	**2.1%**
Net interest margin	**—**	**133,048**	**4.2%(3)**	**—**	**107,729**	**4.4%(3)**
Loan deposit rate spread	—	—	8.8%(4)	—	—	9.2%(4)
Interest bearing asset and liability spread	—	—	4.2%(5)	—	—	4.3%(5)

(1) Average of end-of-three months balances.

(2) Also including hedging derivatives for an average balance of €33 thousand referred only to the year ended December 31, 2014.

(3) Difference between average yield/rate on total assets and on total liabilities and shareholders' equity.

(4) Difference between average yield/rate on loans and receivable with customers and securities.

(5) Difference between average yield/rate on total interest earning assets and on total interest bearing liabilities.

The composition of Group lending, excluding Magellan, during the three year period 2014-2016, in terms of average balances, is characterized by: (i) the prevalence of loans due from customers, the relative total weight percentage was equal to 57.5%, 52.2% and 54.4% in 2014, 2015 and 2016 respectively, and (ii) an increase in percentage terms of financial assets, which rose from 34.8% in 2014 to 44.9% in 2015 and to 43.3% in 2016.

The average yield of due from customers, normalized to account for the effects of the change in the valuation methods concerning the recoverability of late payment interest, amounted to 8.9%, 9.8%, and 10.9% respectively, in 2016, 2015, and 2014 while the average return of financial assets, normalized to take into account that change, amounted to 0.2%, 0.4%, and 0.5% in 2016, 2015 and 2014, respectively.

The composition of the Group's sources of funds, excluding Magellan, during the three year period 2014-2016, in terms of average balances, is characterized by: (i) the increase as a percentage of customer deposits, which increased from 31.8% in 2014 to 62.5% in 2015, and to 69.9% in 2016 (ii) the decrease as a percentage of bank debt, which decreased from 46.0% in 2014 to 20.2% in 2015 and to 13.8% in 2016, and, (iii) the decrease as a percentage of outstanding securities, which decreased from 22.2% in 2014 to 17.4% in 2015 and to 16.2% in 2016.

The average rate of amounts due to customers amounted to 0.3%, 0.5%, and 0.5% in 2016, 2015 and 2014 respectively. The average rate of amounts due to banks amounted to 1.4%, 1.5% and 2.6% in 2016, 2015 and 2014 respectively. The average rate of outstanding securities amounted to 3.0%, 2.8% and 3.5% in 2016, 2015 and 2014 respectively.

The increase in net interest margin during the three year period, net of effects of standardization which take into account the change in the methodology of estimating the recoverability of late payment interest, benefits from the increase in interest income, mainly due to the contribution of the Magellan Group, the changes in interest rates within the financial markets and the increase in the Group's assets.

Interest rate data

Net Changes in interest income and expenses—Volume and rate analysis

The following tables set forth, by category of interest earning assets and interest bearing liabilities, changes in our Group's net interest margin among changes in average volume, changes in average rate and changes due to the effects of both rate and volume for the indicated periods.

Volume and rate variances have been calculated based on movements in average balances over the period and changes in interest rates on average interest earning assets and average interest bearing liabilities.

	Year ended December 31, 2016 compared to year ended December 31, 2015			
	Volume(1)	Yield/rate(2)	Volume and yield/rate(3)	Total net change(4)
	(in € thousands)			
Interest earning assets				
Financial assets	1,254	(2,559)	(549)	(1,854)
Due from banks	(6)	(47)	2	(51)
Due from customers	49,016	(14,327)	(4,503)	30,186
Total interest earning assets	**50,263**	**(10,880)**	**(11,102)**	**28,281**
Other assets	0	(2)	(0)	(2)
Total assets	**50,263**	**(10,882)**	**(11,103)**	**28,279**
Interest bearing liabilities				
Due to banks	(720)	(446)	42	(1,124)
Due to customers	4,085	(4,131)	(1,969)	(2,014)
Debt securities in issue	2,920	1,192	277	4,389
Financial liabilities held for trading	—	—	870	870
Total interest bearing liabilities	**6,286**	**(3,384)**	**(780)**	**2,121**
Other liabilities	**—**	**—**	**—**	**—**
Total liabilities	**6,286**	**(3,384)**	**(780)**	**2,121**
Net interest margin				**26,158**
Of which loan deposit customers, securities and financial liabilities designated at fair value	42,010	(11,388)	(3,681)	26,941

(1) "Volume" refers to the average balance for the period minus the average balance for the previous period, multiplied by the average yield for such period.

(2) "Yield/rate" refers to the average yield/rate for the period minus the average yield/rate for the previous period multiplied by the average balance for such period.

(3) "Volume and yield/rate" refers to "Total net change" minus "Volume" minus "Yield/rate".

(4) "Total net change" refers to net interest margin for the period minus net interest margin for the previous period.

	Year ended December 31, 2015 compared to year ended December 31, 2014			
	Volume[1]	Yield/rate[2]	Volume and yield/rate[3]	Total net change[4]
	(in € thousands)			
Interest earning assets				
Financial assets	2,764	(580)	(395)	1,789
Loans and receivables to banks	(509)	(690)	356	(843)
Loans and receivables to customers	45,267	(115,666)	(21,154)	(91,553)
Total interest earning assets	**47,522**	**(116,935)**	**(21,194)**	**(90,607)**
Other assets	—	4	(2)	2
Total assets	**47,522**	**(116,931)**	**(21,195)**	**(90,605)**
Interest bearing liabilities				
Due to banks	(10,763)	(10,962)	4,792	(16.933)
Due to customers	5,313	(92)	(140)	5.080
Debt securities in issue	26	(3,073)	(5)	(3.052)
Financial liabilities held for trading	(461)	(461)	521	(401)
Total interest bearing liabilities	**(5,885)**	**(14,588)**	**5,167**	**(15,306)**
Other liabilities	21	(36)	(21)	(36)
Total liabilities	**(5,864)**	**(14,624)**	**5,146**	**(15,342)**
Net interest margin	**—**	**—**	**—**	**(75,263)**
Of which loan deposit customers, securities and financial liabilities designated at fair value	*40,389*	*(112,039)*	*(21,530)*	*(93,180)*

(1) "Volume" refers to the average balance for the period minus the average balance for the previous period, multiplied by the average yield for such period.

(2) "Yield/rate" refers to the average yield/rate for the period minus the average yield/rate for the previous period multiplied by the average balance for such period.

(3) "Volume and yield/rate" refers to "Total net change" minus "Volume" minus "Yield/rate".

(4) "Total net change" refers to net interest margin for the period minus net interest margin for the previous period.

	Year ended December 31, 2015 compared to year ended December 31, 2014			
	Volume (normalized)[(1)]	Yield/rate (normalized)[(2)]	Volume and yield/rate (normalized)[(3)]	Total net change (normalized)[(4)]
	(in € thousands)			
Interest earning assets				
Financial assets	2,764	(580)	(395)	1,789
Loans and receivables to banks	(509)	(690)	356	(843)
Loans and receivables to customers	26,871	(15,084)	(2,759)	9,029
Total interest earning assets	**29,126**	**(16,353)**	**(2,798)**	**9,975**
Other assets	—	4	(2)	2
Total assets	**29,126**	**(16,349)**	**(2,799)**	**9,977**
Interest bearing liabilities				
Due to banks	(10,763)	(10,962)	4,792	(16,933)
Due to customers	5,313	(92)	(140)	5,080
Debt securities in issue	26	(3,073)	(5)	(3,052)
Financial liabilities held for trading	(461)	(461)	521	(401)
Total interest bearing liabilities	**(5,885)**	**(14,588)**	**5,167**	**(15,306)**
Other liabilities	21	(36)	(21)	(36)
Total liabilities	**(5,864)**	**(14,624)**	**5,146**	**(15,342)**
Net interest margin	**—**	**—**	**—**	**25,319**
Of which loan deposit customers, securities and financial liabilities designated at fair value	*21,993*	*(11,457)*	*(3,134)*	*7,402*

(1) "Volume" refers to the average balance for the period minus the average balance for the previous period, multiplied by the average yield for such period.

(2) "Yield/rate" refers to the average yield/rate for the period minus the average yield/rate for the previous period multiplied by the average balance for such period.

(3) "Volume and yield/rate" refers to "Total net change" minus "Volume" minus "Yield/rate".

(4) "Total net change" refers to net interest margin for the period minus net interest margin for the previous period.

The following table sets forth our Group's average interest earning assets, average interest bearing liabilities and net interest margin and sets forth the comparative net interest margin ratio and net interest spread for the indicated periods.

	For the year ended December 31,		
	2016	2015	2014
	(in € thousands, except percentages)		
Total average interest earning assets	**3,844,934**	**3,053,394**	**2,343,141**
Total average interest bearing liabilities	**3,435,239**	**2,603,887**	**2,029,235**
Net interest margin	159,205	133,048	208,311
Average yield on average interest earning assets	4.9%	5.3%	10.7%
Average rate on average interest bearing liabilities	0.9%	1.1%	2.2%
Net interest spread[(1)]	4.0%	4.2%	8.6%
Net interest margin ratio[(2)]	4.1%	4.3%	8.8%

(1) Net interest spread refers to the difference between the average yield of interest earning assets and average rate payable by us on interest bearing liabilities.

(2) Net interest margin ratio refers to the ratio between net interest margin and total average assets.

Investment portfolio

As of December 31, 2016, the book value of our securities portfolio increased by 60.9% to €2,014.4 million, representing approximately 42.5% of our total assets., after decreasing by 5.6% to €1,252.3 million as of December 31, 2015, the book value of our securities portfolio decreased by 5.6% to €1,252.3 million, representing approximately 37.7% of our total assets, after increasing by more than 100% to €1,326.1 million from December 31, 2014, when it represented approximately 43.8% of our total assets.

In our banking activities, we do not otherwise hold securities issued or guaranteed by any one entity or obligor, other than the Italian government, whose carrying value represents more than 10% of our consolidated shareholders' equity determined in accordance with IFRS.

The following table provides a breakdown of our Group's securities portfolio as of the dates indicated.

	As of December 31,		
	2016	2015	2014
	(in € thousands)		
Financial assets held for trading	**244**	**—**	**—**
Financial derivative instruments	244	—	—
Financial assets at fair value	**3,401**	**—**	**—**
of which OICR units	3,401	—	—
Available-for-sale financial assets	**385,280**	**429,438**	**370,180**
Government securities	385,086	429,415	370,157
Investments	194	23	23
Held-to-maturity financial assets	**1,629,320**	**822,859**	**955,932**
Government securities	1,629,320	822,859	955,932
Total	**2,018,245**	**1,252,297**	**1,326,112**

The table below shows the amount and percentage represented by our government securities of our net interest margin, operating income and profit for the year ended December 31, 2016 and the year ended December 31, 2015.

	For the year ended December 31, 2016	% off interest margin	% of operating income	% of profit	For the year ended December 31, 2015	% off interest margin	% of operating income	% of profit
	(in € thousands)							
Interest	3,994	2.5%	2.4%	5.5%	5,848	4.4%	4.1%	8.5%
Gains/losses on the disposal/ repurchase of financial assets	706	0.4%	0.4%	1.0%	872	0.7%	0.6%	1.3%
Total	**4,700**	**3.0%**	**2.9%**	**6.5%**	**6,720**	**5.1%**	**4.7%**	**9.8%**

By purchasing government securities and refinancing them through open market operations with the ECB and repos with other financial institutions, we aim to reduce the cost of funding and optimize our liquidity position, thus benefiting from the difference between the return on our investment in the government securities and the ECB's refinancing rate. We use government securities which may be classified as HTM and have a positive return in connection with credit lines granted by the banking system, with no negative effect on our liquidity risk.

As of December 31, 2016 and December 31, 2015, we refinanced our government securities portfolio for a nominal value of €0 million and €206 million, respectively, through open market operations with the ECB and €1,770.5 million and €892 million, respectively, through repos.

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

The table below shows the distribution by residual contractual maturity of the securities in our portfolio (book value) as of December 31, 2016 and December 31, 2015.

	As of December 31, 2016									
	On demand	1 up to 7 days	7 up to 15 days	15 days up to 1 month	1 up to 3 months	3 up to 6 months	6 months up to 1 year	1 up to 5 years	Over 5 years	Unspecified maturity
	(in € thousands)									
On-balance sheet assets[(1)]										
Government bonds	—	—	50,124	—	222,737	506,051	363,439	872,247	—	—
Total	**—**	**—**	**50,124**	**—**	**222,737**	**506,051**	**363,439**	**872,247**	**—**	**—**

(1) Includes all on-balance sheet bonds, irrespective of their portfolio of allocation, whether trading, available-for-sale, held-to-maturity, loans, assets designated at fair value through profit and loss, or discontinued operations.

	As of December 31, 2015									
	On demand	1 up to 7 days	7 up to 15 days	15 days up to 1 month	1 up to 3 months	3 up to 6 months	6 months up to 1 year	1 up to 5 years	Over 5 years	Unspecified maturity
	(in € thousands)									
On-balance sheet assets[(1)]										
Government bonds	—	—	11,121	—	42,334	67,509	177,186	945,442	—	—
Total	**—**	**—**	**11,121**	**—**	**42,334**	**75,736**	**177,186**	**1,245,442**	**—**	**—**

(1) Includes all on-balance sheet bonds, irrespective of their portfolio of allocation, whether trading, available-for-sale, held-to-maturity, loans, assets designated at fair value through profit and loss, or discontinued operations.

	As of December 31, 2016					
	Within 3 months	3 up to 6 months	6 months up to 1 year	1 up to 5 years	Over 5 years	Total at December 31, 2016
	(in € thousands)					
Available-for-sale (AFS)	—	—	—	385,085	—	385,085
Held-to-maturity (HTM)	270,537	499,925	358,844	500,014	—	1.629,320
Government securities	**270,537**	**499,925**	**358,844**	**885,099**	**—**	**2.014,405**
Of which at fixed rate	270,537	499,925	358,844	500,014	—	1.629,320
At variable rate	—	—	—	385,085	—	385,085

	As of December 31, 2015					
	Within 3 months	3 up to 6 months	6 months up to 1 year	1 up to 5 years	Over 5 years	Total at December 31, 2015
	(in € thousands)					
Available-for-sale (AFS)	—	—	—	429,415	—	429,415
Held-to-maturity (HTM)	51,493	56,945	167,417	547,004	—	822,859
Government securities	**51,493**	**56,945**	**167,417**	**976,419**	**—**	**1,252,274**
Of which at fixed rate	51,493	56,945	167,417	547,004	—	822,859
At variable rate	—	—	—	429.415	—	429.415

Bond portfolio by maturity

The following tables set forth the book value of the Group's debt securities by maturity based on residual life as of December 31, 2016, 2015 and 2014. During this period, our holdings of government bonds have increased significantly.

	As of December 31, 2016									
	On demand	1 up to 7 days	7 up to 15 days	15 days up to 1 month	1 up to 3 months	3 up to 6 months	6 months up to 1 year	1 up to 5 years	Over 5 years	Unspecified maturity
	(in € thousands)									
On-balance sheet assets[(1)]										
Government bonds	—	—	50,124	—	222,737	506,051	363,439	872,247	—	—
Total	**—**	**—**	**50,124**	**—**	**222,737**	**506,051**	**363,439**	**872,247**	**—**	**—**

	As of December 31, 2015									
	On demand	1 up to 7 days	7 up to 15 days	15 days up to 1 month	1 up to 3 months	3 up to 6 months	6 months up to 1 year	1 up to 5 years	Over 5 years	Unspecified maturity
	(in € thousands)									
On-balance sheet exposures[(1)]										
Government bonds	—	—	11,121	—	42,334	67,509	177,186	945,442	—	—
Total	**—**	**—**	**11,121**	**—**	**42,334**	**75,736**	**177,186**	**1,245,442**	**—**	**—**

	As of December 31, 2014									
	On demand	1 up to 7 days	7 up to 15 days	15 days up to 1 month	1 up to 3 months	3 up to 6 months	6 months up to 1 year	1 up to 5 years	Over 5 years	Unspecified maturity
	(in € thousands)									
On-balance sheet exposures[(1)]										
Government bonds	276	—	22,042	—	119,679	91,690	574,300	498,795	—	—
Other debt securities	—	—	—	—	—	—	—	300,000	166,650	—
Total	**276**	**—**	**22,042**	**—**	**119,679**	**91,690**	**574,300**	**798,795**	**166,650**	**—**

(1) Includes all on-balance sheet bonds, irrespective of their portfolio of allocation, whether trading, available-for-sale, held-to-maturity, loans, assets designated at fair value through profit and loss, or discontinued operations.

Loan portfolio

As of December 31, 2016, the Group's loan portfolio included loans due from banks of €144.9 million, representing approximately 3.1% of our total assets and loans to customers equal to €2,499.1 million, representing approximately 52.8% of our total assets.

As of December 31, 2015, the Group's loan portfolio included loans due from banks of €60.5 million, representing approximately 1.8% of our total assets and loans to customers equal to €1,962.0 million, representing approximately 59.1% of our total assets. As of December 31, 2015, our loan portfolio increased by 22.4% compared to the €1,652.7 million recorded as of December 31, 2014.

The following table presents a breakdown of our loan portfolio as of December 31, 2016, 2015, 2014.

	As of December 31, 2016	As of December 31, 2015	Changes Amount	%
	(in € thousands, except percentages)			
Loan portfolio				
Due from banks	144,871	60,523	84,348	139.4%
Due from customers	2,499,094	1,962,004	537,090	27.4%
Total	**2,643,965**	**2,022,527**	**621,438**	**30.7%**

	As of December 31,		Changes Amount	%
	2015	2014		
	(in € thousands, except percentages)			
Loan portfolio				
Due from banks	60,523	97,726	(37,203)	(38.1)%
Due from customers	1,962,004	1,554,957	407,047	26.2%
Total	**2,022,527**	**1,652,683**	**369,844**	**22.4%**

Loan portfolio by contractual maturity

The following tables provide a breakdown of our loans to banks and customers by maturity based on residual life as of December 31, 2016, 2015 and 2014.

	As of December 31, 2016					
	Within 3 months	3 up to 6 months	6 months up to 1 year	1 up to 5 years	Over 5 years	Total
	(in € thousands)					
On-balance sheet exposures[(1)]						
Due from banks	144,871	—	—	—	—	144,871
Due from customers	862,805	311,029	508,011	776,118	41,131	2,499,094
Total	**1,007,676**	**311,029**	**508,011**	**776,118**	**41,131**	**2,643,965**

	As of December 31, 2015					
	Within 3 months	3 up to 6 months	6 months up to 1 year	1 up to 5 years	Over 5 years	Total
	(in € thousands)					
On-balance sheet exposures[(1)]						
Due from banks	60,523	—	—	—	—	60,523
Due from customers	726,969	284,291	440,339	477,283	33,122	1,962,004
Total	**787,492**	**284,291**	**440,339**	**477,283**	**33,122**	**2,022,527**

	As of December 31, 2014					
	Within 3 months	3 up to 6 months	6 months up to 1 year	1 up to 5 years	Over 5 years	Total
	(in € thousands)					
On-balance sheet exposures[(1)]						
Due from banks	97,726	—	—	—	—	97,726
Due from customers	474,414	314,860	449,020	313,727	2,936	1,554,957
Total	**572,140**	**314,860**	**449,020**	**313,727**	**2,936**	**1,652,683**

Risk elements in the loan portfolio: Loan classification

We analyze the risk elements in our loan portfolio in accordance with IFRS, GAAP, applicable Italian regulations (or other local regulations) and industry practices. See "*Risk Management—Investment portfolio—Credit risk management policies*".

Loan Classification

Starting from the first quarter of 2015, loans classification into risk classes was updated in order to reflect the changes provided in Bank of Italy (Circular No. 272 of July 30, 2008—*Matrice dei conti*) ("**Circular 272**"). The total volume of loans classified in the previous categories that made up the perimeter of non-performing loans as of December 31, 2014 (Bad Loans, Watchlist Loans, Restructured Loans, and Past-due Loans) were reallocated to three new risk classes (Bad Loans, "Unlikely to pay", and Past-due Loans).

For more information regarding the new loan classifications, see "*Risk Management—Investment portfolio—Credit risk management policies*".

Credit risk management policies

For a discussion of our Group's policies on credit risk, see "*Risk Management—Credit risk management policies*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical accounting policies*".

Quality of loan portfolio

The following tables set forth information about the quality of the Group's loan portfolio as of December 31, 2016, 2015 and 2014.

Overall credit exposures by risk class

	As of December 31, 2016			
	Impaired Assets		Not-Impaired Assets	
Banking group	Gross	Net[1]	Gross	Net[1]
	(in € thousands)			
Portfolios/category				
On-balance sheet exposures[3]				
Available-for-sale financial assets	—	—	385,086	385,086
Held-to-maturity financial assets	—	—	1,629,320	1,629,320
Due from banks	—	—	144,871	144,871
Due from customers	66,372	61,847	2,443,009	2,437,248
Financial assets designated at fair value	—	—	3,401	3,401
Financial assets under disposal	—	—	—	—
Total	**66,372**	**61,847**	**4,605,687**	**4,599,926**

	As of December 31, 2015			
	Impaired Assets		Not-Impaired Assets	
Banking group	Gross	Net[1]	Gross	Net[1]
	(in € thousands)			
Portfolios/category				
On-balance sheet exposures[3]				
Available-for-sale financial assets	—	—	429,415	429,415
Held-to-maturity financial assets	—	—	822,859	822,859
Due from banks	—	—	60,523	60,523
Due from customers	47,536	45,741	1,920,013	1,916,263
Financial assets designated at fair value	—	—	—	—
Financial assets under disposal	—	—	—	—
Total	**47,536**	**45,741**	**3,232,810**	**3,229,060**

(1) Net of reserves made with respect to such exposures.

(2) "Not impaired exposures" represents our performing assets.

(3) Includes all on-balance sheet bonds, irrespective of their portfolio of allocation, whether trading, available-for-sale, held-to-maturity, loans, assets designated at fair value through profit and loss, or discontinued operations.

	As of December 31, 2014			
	Impaired Assets		Not-Impaired Assets	
Banking group	Gross	Net[1]	Gross	Net[1]
	(in € thousands)			
Portfolios/category				
On-balance sheet exposures[3]	—	—	—	—
Available-for-sale financial assets	—	—	370,156	370,156
Held-to-maturity financial assets	—	—	955,932	955,932
Due from banks	—	—	77,389	77,389
Due from customers	14,676	12,778	1,544,848	1,542,180
Financial assets designated at fair value	—	—	—	—
Financial assets under disposal	—	—	—	—
Total	**14,676**	**12,778**	**2,948,325**	**2,945,657**

(1) Net of reserves made with respect to such exposures.

(2) "Other exposures" represents our performing assets.

(3) Includes all on-balance sheet bonds, irrespective of their portfolio of allocation, whether trading, available-for-sale, held-to-maturity, loans, assets designated at fair value through profit and loss, or discontinued operations.

Credit exposures by customer group and economic sector

The following tables set forth information about our on-balance sheet exposures and our off-balance sheet exposures as of December 31, 2016, 2015 and 2014 by (i) governments and other public entities, (ii) financial institutions and insurance companies, and (iii) non-financial companies and other counterparties.

	Governments			Other public entities		
	Net exposure	Individual adjustments[1]	Collective adjustments[1]	Net exposure	Individual adjustments[1]	Collective adjustments[1]
	(in € thousands)					
On-balance sheet exposures						
Non-performing loans	—	—	—	6,131	931	—
Unlikely to pay loans	—	—	—	3,376	—	—
Impaired past due exposures	4,662	9	—	34,136	63	—
Not impaired exposures	2,423,898	—	755	1,782,764	—	4,174
Total of December 31, 2016	**2,428,560**	**9**	**755**	**1,826,408**	**994**	**4,174**

	Governments			Other public entities		
	Net exposure	Individual adjustments[1]	Collective adjustments[1]	Net exposure	Individual adjustments[1]	Collective adjustments[1]
	(in € thousands)					
Off-balance sheet exposures						
Non-performing loans	—	—	—		—	—
Unlikely to pay loans	—	—	—		—	—
Other impaired exposures	6	—	—	676	—	—
Not impaired exposures	1,775	—	—	34,873	—	—
Total of December 31, 2016	**1,781**	**—**	**—**	**35,550**	**—**	**—**

	Financial institutions			Insurance companies		
	Net exposure	Individual adjustments(1)	Collective adjustments(1)	Net exposure	Individual adjustments(1)	Collective adjustments(1)
	(in € thousands)					
On-balance sheet exposures						
Non-performing loans	312	296	—	—	—	—
Unlikely to pay loans	—	—	—	—	—	—
Impaired past due exposures	341	—	—	—	—	—
Not impaired exposures	117,790	—	604	—	—	—
Total of December 31, 2016	**118,444**	**296**	**604**	**—**	**—**	**—**

	Financial institutions			Insurance companies		
	Net exposure	Individual adjustments(1)	Collective adjustments(1)	Net exposure	Individual adjustments(1)	Collective adjustments(1)
	(in € thousands)					
Off-balance sheet exposures						
Non-performing loans	—	—	—	—	—	—
Unlikely to pay loans	—	—	—	—	—	—
Other impaired exposures	—	—	—	—	—	—
Not impaired exposures	—	—	—	—	—	—
Total of December 31, 2016	**—**	**—**	**—**	**—**	**—**	**—**

	Non-Financial companies			Other counterparties		
	Net exposure	Individual adjustments(1)	Collective adjustments(1)	Net exposure	Individual adjustments(1)	Collective adjustments(1)
	(in € thousands)					
On-balance sheet exposures						
Non-performing loans	33	853	—	5,589	2,262	—
Unlikely to pay loans	—	—	—	237	101	—
Impaired past due exposures	6,497	11	—	532	—	—
Not impaired exposures	29,460	—	32	97,740	—	195
Total of December 31, 2016	**35,990**	**864**	**32**	**104,099**	**2,364**	**195**

	Non-Financial companies			Other counterparties		
	Net exposure	Individual adjustments(1)	Collective adjustments(1)	Net exposure	Individual adjustments(1)	Collective adjustments(1)
	(in € thousands)					
Off-balance sheet exposures						
Non-performing loans	—	—	—	—	—	—
Unlikely to pay loans	—	—	—	—	—	—
Other impaired exposures	34	—	—	—	—	—
Not impaired exposures	90,622	—	—	—	—	—
Total of December 31, 2016	**90,656**	**—**	**—**	**—**	**—**	**—**

(1) "Adjustments" refer to the reserves made with respect to such exposures.

	Governments			Other public entities		
	Net exposure	Individual adjustments(1)	Collective adjustments(1)	Net exposure	Individual adjustments(1)	Collective adjustments(1)
	(in € thousands)					
On-balance sheet exposures						
Non-performing loans	—	—	—	1,229	451	—
Unlikely to pay loans	—	—	—	—	—	—
Impaired past due exposures	31	—	—	9,543	17	—
Not impaired exposures	1,533,844	—	499	1,584,139	—	3,225
Total of December 31, 2015	**1,533,875**	**—**	**499**	**1,594,911**	**468**	**3,225**

	Governments			Other public entities		
	Net exposure	Individual adjustments[(1)]	Collective adjustments[(1)]	Net exposure	Individual adjustments[(1)]	Collective adjustments[(1)]
			(in € thousands)			
Off-balance sheet exposures						
Non-performing loans	—	—	—	—	—	—
Unlikely to pay loans	—	—	—	—	—	—
Other impaired exposures . . .		—	—	—	—	—
Not impaired exposures	7,360	—	—	18,861	—	—
Total of December 31, 2015 . .	**7,360**	**—**	**—**	**18,861**	**—**	**—**

	Financial institutions			Insurance companies		
	Net exposure	Individual adjustments[(1)]	Collective adjustments[(1)]	Net exposure	Individual adjustments[(1)]	Collective adjustments[(1)]
			(in € thousands)			
On-balance sheet exposures						
Non-performing loans	—	—	—	—	—	—
Unlikely to pay loans	—	—	—	—	—	—
Impaired past due exposures .	—	—	—	—	—	—
Not impaired exposures	28,932	—	—	—	—	—
Total of December 31, 2015 . .	**28,932**	**—**	**—**	**—**	**—**	**—**

	Financial institutions			Insurance companies		
	Net exposure	Individual adjustments[(1)]	Collective adjustments[(1)]	Net exposure	Individual adjustments[(1)]	Collective adjustments[(1)]
			(in € thousands)			
Off-balance sheet exposures						
Non-performing loans	—	—	—	—	—	—
Unlikely to pay loans	—	—	—	—	—	—
Other impaired exposures . . .	—	—	—	—	—	—
Not impaired exposures	—	—	—	—	—	—
Total of December 31, 2015 . .	**—**	**—**	**—**	**—**	**—**	**—**

	Non-Financial companies			Other counterparties		
	Net exposure	Individual adjustments[(1)]	Collective adjustments[(1)]	Net exposure	Individual adjustments[(1)]	Collective adjustments[(1)]
			(in € thousands)			
On-balance sheet exposures						
Non-performing loans	234	850	—	1,044	418	—
Unlikely to pay loans	—	—	—	—	—	—
Impaired past due exposures .	33,473	59	—	186	—	—
Not impaired exposures	6,491	—	8	15,131	—	18
Total of December 31, 2015 . .	**40,198**	**909**	**8**	**16,361**	**418**	**18**

	Non-Financial companies			Other counterparties		
	Net exposure	Individual adjustments[(1)]	Collective adjustments[(1)]	Net exposure	Individual adjustments[(1)]	Collective adjustments[(1)]
			(in € thousands)			
Off-balance sheet exposures						
Non-performing loans	—	—	—	—	—	—
Unlikely to pay loans	—	—	—	—	—	—
Other impaired exposures . . .	—	—	—	—	—	—
Not impaired exposures	91,240	—	—	—	—	—
Total of December 31, 2015 . .	**91,240**	**—**	**—**	**—**	**—**	**—**

(1) "Adjustments" refer to the impairment provisions made with respect to such exposures.

	Governments			Other public entities		
	Net exposure	Individual adjustments(1)	Collective adjustments(1)	Net exposure	Individual adjustments(1)	Collective adjustments(1)
	(in € thousands)					
On-balance sheet exposures						
Non-performing loans	—	—	—	110	576	—
Doubtful exposures	—	—	—	—	—	—
Impaired past due exposures	5,247	9	—	3,284	5	—
Other exposures	1,435,839	—	179	1,386,763	—	2,446
Total of December 31, 2014(2)	**1,441,086**	**9**	**179**	**1,390,157**	**581**	**2,446**

	Governments			Other public entities		
	Net exposure	Individual adjustments(1)	Collective adjustments(1)	Net exposure	Individual adjustments(1)	Collective adjustments(1)
	(in € thousands)					
Off-balance sheet exposures						
Non-performing loans	—	—	—	—	—	—
Doubtful exposures	—	—	—	—	—	—
Other impaired exposures	—	—	—	—	—	—
Other exposures	—	—	—	—	—	—
Total of December 31, 2014(2)	**—**	**—**	**—**	**—**	**—**	**—**

	Financial institutions			Insurance companies		
	Net exposure	Individual adjustments(1)	Collective adjustments(1)	Net exposure	Individual adjustments(1)	Collective adjustments(1)
	(in € thousands)					
On-balance sheet exposures						
Non-performing loans	—	—	—	—	—	—
Doubtful exposures	—	—	—	—	—	—
Impaired past due exposures	—	—	—	—	—	—
Other exposures	13,588	—	1	—	—	—
Total of December 31, 2014	**13,588**	**—**	**1**	**—**	**—**	**—**

	Financial institutions			Insurance companies		
	Net exposure	Individual adjustments(1)	Collective adjustments(1)	Net exposure	Individual adjustments(1)	Collective adjustments(1)
	(in € thousands)					
Off-balance sheet exposures						
Non-performing loans	—	—	—	—	—	—
Doubtful exposures	—	—	—	—	—	—
Other impaired exposures	—	—	—	—	—	—
Other exposures	11,280	—	—	—	—	—
Total of December 31, 2014	**11,280**	**—**	**—**	**—**	**—**	**—**

	Non-Financial companies			Other counterparties		
	Net exposure	Individual adjustments(1)	Collective adjustments(1)	Net exposure	Individual adjustments(1)	Collective adjustments(1)
	(in € thousands)					
On-balance sheet exposures						
Non-performing loans	427	851	—	2,400	456	456
Doubtful exposures	—	—	—	62	—	—
Impaired past due exposures	623	1	—	625	1	—
Other exposures	23,701	—	38	8,376	—	5
Total of December 31, 2014	**24,751**	**852**	**38**	**11,463**	**457**	**461**

(1) "Adjustments" refer to the impairment provisions made with respect to such exposures.

	Non-Financial companies			Other counterparties		
	Net exposure	Individual adjustments[(1)]	Collective adjustments[(1)]	Net exposure	Individual adjustments[(1)]	Collective adjustments[(1)]
	(in € thousands)					
Off-balance sheet exposures						
Non-performing loans	—	—	—	—	—	—
Doubtful exposures	—	—	—	—	—	—
Other impaired exposures . . .	—	—	—	—	—	—
Other exposures	—	—	—	—	—	—
Total of December 31, 2014 . .	**—**	**—**	**—**	**—**	**—**	**—**

Borrower concentrations and significant risk exposures

The Bank of Italy defines a "significant risk exposure" as any position the amount of which is equal or greater than 10% of the own funds of the Group. As of December 31, 2016, we had 14 significant risk exposures totaling €257.5 million (weighted value). As of December 31, 2015, we had 15 significant risk exposures totaling €264.6 million (book value). As of December 31, 2014, we had 10 significant risk exposures totaling €211.4 million (weighted value).

Foreign country exposure

The following tables show the geographic breakdown of the Group's exposures based on the country of the borrower or ultimate guarantor of the exposure as of the indicated dates.

Credit exposures by country: Customers

The following tables show the geographic breakdown of the Group's exposures based on the country of the borrower or ultimate guarantor of the exposure as of the indicated dates.

	Italy		Other European countries		America		Asia		Other	
	Net exposure	Total adjustments[(1)]	Net exposure	Total adjustments[(1)]	Net exposure	Total adjustments[(1)]	Net exposure	Total adjustments[(1)]	Net exposure	Total adjustments[(1)]
	(in € thousands)									
On-balance sheet exposures: customers										
Non performing loans .	7,194	2,392	4,872	1,950						
Unlikely to pay loans .	—	—	3,614	101						
Impaired past due exposures	45,429	82	739	—						
Not impaired exposures	3,824,180	3,409	627,474	2,352						
Total-As of December 31, 2016 . .	3,876,802	5,883	636,698	4,404						

	Italy		Other European countries		America		Asia		Other	
	Net exposure	Total adjustments[(1)]	Net exposure	Total adjustments[(1)]	Net exposure	Total adjustments[(1)]	Net exposure	Total adjustments[(1)]	Net exposure	Total adjustments[(1)]
	(in € thousands)									
On-balance sheet exposures: customers										
Non performing loans .	2,507	1,719	—	—	—	—	—	—	—	—
Unlikely to pay loans .	—	—	—	—	—	—	—	—	—	—
Impaired past due exposures	43,220	76	14	—	—	—	—	—	—	—
Not impaired exposures	2,947,189	3,700	221,347	50	—	—	—	—	—	—
Total-As of December 31, 2015 . .	**2,992,916**	**5,495**	**221,361**	**50**	**—**	**—**	**—**	**—**	**—**	**—**

	Italy		Other European countries		America		Asia		Other	
	Net exposure	Total adjustments[(1)]	Net exposure	Total adjustments[(1)]	Net exposure	Total adjustments[(1)]	Net exposure	Total adjustments[(1)]	Net exposure	Total adjustments[(1)]
	(in € thousands)									
On-balance sheet exposures: customers										
Non performing loans .	2,998	1,883	—	—	—	—	—	—	—	—
Doubtful exposures . . .	—	—	—	—	—	—	—	—	—	—
Impaired past due exposures	9,779	16	—	—	—	—	—	—	—	—
Other exposures	2,598,990	2,638	269,278	30	—	—	—	—	—	—
Total-As of December 31, 2014 . .	**2,611,767**	**4,537**	**269,278**	**30**	**—**	**—**	**—**	**—**	**—**	**—**

(1) "Adjustments" refer to the reserves made with respect to such exposures.

Credit exposures by country: Banks

	Italy		Other European countries		America		Asia		Other	
	Net exposure	Total adjustments(1)	Net exposure	Total adjustments(1)	Net exposure	Total adjustments(1)	Net exposure	Total adjustments(1)	Net exposure	Total adjustments(1)
	(in € thousands)									
On-balance sheet exposures: banks										
Non-performing loans	—	—	—	—	—	—	—	—	—	—
Unlikely to pay loans	—	—	—	—	—	—	—	—	—	—
Impaired past due exposures	—	—	—	—	—	—	—	—	—	—
Not impaired exposures	130,381	—	14,490	—	—	—	—	—	—	—
Total-As of December 31, 2016	130,381	—	14,490	—	—	—	—	—	—	—

	Italy		Other European countries		America		Asia		Other	
	Net exposure	Total adjustments(1)	Net exposure	Total adjustments(1)	Net exposure	Total adjustments(1)	Net exposure	Total adjustments(1)	Net exposure	Total adjustments(1)
	(in € thousands)									
On-balance sheet exposures: banks										
Non-performing loans	—	—	—	—	—	—	—	—	—	—
Unlikely to pay loans	—	—	—	—	—	—	—	—	—	—
Impaired past due exposures	—	—	—	—	—	—	—	—	—	—
Not impaired exposures	55,393	—	385	—	—	—	—	—	—	—
Total-As of December 31, 2015	**55,393**	**—**	**385**	**—**	**—**	**—**	**—**	**—**	**—**	**—**

	Italy		Other European countries		America		Asia		Other	
	Net exposure	Total adjustments(1)	Net exposure	Total adjustments(1)	Net exposure	Total adjustments(1)	Net exposure	Total adjustments(1)	Net exposure	Total adjustments(1)
	(in € thousands)									
On-balance sheet exposures: customers										
Non-performing loans	—	—	—	—	—	—	—	—	—	—
Doubtful exposures	—	—	—	—	—	—	—	—	—	—
Impaired past due exposures	—	—	—	—	—	—	—	—	—	—
Other exposures	74,718	—	2,671	—	—	—	—	—	—	—
Total-As of December 31, 2014	**74,718**	**—**	**2,671**	**—**	**—**	**—**	**—**	**—**	**—**	**—**

(1) "Adjustments" refer to the reserves made with respect to such exposures.

Loan loss experience

Total adjustments to non-performing loans

For a more detailed description of how we assess the impairment of financial assets and intangible assets see *"Risk Management—Credit risk management policies"*.

The following tables show details of the changes in total adjustments relating to non-performing loans of the Group for the indicated periods (*i.e.* the impairment provisions made for exposures).

	As of December 31, 2016					
	Non-performing exposures		Unlikely to pay exposures		Impaired past due exposures	
Source/ Category	Total	Forborne exposures	Total	Forborne exposures	Total	Forborne exposures
			(in € thousands)			
Opening total impairments	**1,719**	**—**	**0**	**—**	**76**	**—**
of which: receivables sold but not derecognized	18	—	0	—	7	—
Increases	**2,703**	**—**	**101**	**—**	**66**	**—**
impairment losses	198	—	0	—	0	—
losses on sale	0	—	0	—	0	—
transfers from other impaired exposures	1,950	—	101	—	0	—
other increases	555	—	—	—	66	—
Decreases	**80**	**—**	**0**	**—**	**60**	**—**
impairment reversals	0	—	0	—	0	—
impairment reversals from collections	24	—	0	—	49	—
gains on sale	0	—	0	—	0	—
Derecognition	0	—	0	—	0	—
transfer to other impaired exposures	3	—	0	—	0	—
other decreases	53	—	0	—	10	—
Closing total impairments	**4,342**	**—**	**101**	**—**	**82**	**—**
of which: receivables sold but not derecognized	169	—	0	—	30	—

	As of December 31, 2015					
	Non-performing exposures		Unlikely to pay exposures		Impaired past due exposures	
Source/Category	Total	Forborne exposures	Total	Forborne exposures	Total	Forborne exposures
			(in € thousands)			
Opening total impairments	**1,883**	**—**	**—**	**—**	**16**	**—**
of which: receivables sold but not derecognized		—	—	—		—
Increases	**143**	**—**	**—**	**—**	**77**	**—**
impairment losses	143	—	—	—	72	—
losses on sale	—	—	—	—	—	—
transfers from other impaired exposures	—	—	—	—	—	—
other increases	—	—	—	—	5	—
Decreases	**307**	**—**	**—**	**—**	**17**	**—**
impairment reversals	—	—	—	—	1	—
impairment reversals from collections	123	—	—	—	9	—
gains on sale	—	—	—	—	—	—
Derecognition	—	—	—	—	—	—
transfer to other impaired exposures	—	—	—	—	—	—
other decreases	184	—	—	—	7	—
Closing total impairments	**1,719**	**—**	**—**	**—**	**76**	**—**
of which: receivables sold but not derecognized	18	—	—	—	7	—

Source/Category	As of December 31, 2014 Non-performing exposures	Doubtful exposures	Impaired past due exposures
	(in € thousands)		
Opening total impairments	**2,267**	**—**	**625**
of which: receivables sold but not derecognized			
Increases	**56**	1	**675**
impairment losses	56	1	670
losses on sale	—	—	—
transfers from other impaired exposures	—	—	1
other increases	—	—	4
Decreases	**441**	**1**	**1,283**
impairment reversals	—	—	—
impairment reversals from collections	441	—	—
gains on sale	—	—	—
Derecognition	—	—	—
transfer to other impaired exposures	—	1	—
other decreases	—	—	1,283
Closing total impairments	**1,882**	**—**	**17**
of which: receivables sold but not derecognized	—	—	—

Credit quality

Credit quality analysis is performed with respect to loans to customers. The provision for loan losses as of December 31, 2016 was €23.9 million, an increase of €4.8 million compared to €19.1 million as of December 31, 2015. Our non-performing loan coverage ratio, representing our loan loss allowance for non-performing loans as a percentage of our total non-performing loans, decreased to 59.8% as of December 31, 2016, compared to 85.9% as of December 31, 2015 and 85.1% as of December 31, 2014.

The Group's Magellan Acquisition has predicated an increase in the Group's net non-performing loans of €4,872 thousand, as of December 31, 2016.

The following tables show a breakdown of the credit quality of our Group's loans to customers as of December 31, 2016 and December 31, 2015 and as of December 31, 2015 and December 31, 2014.

	As of December 31, 2016 Gross exposure	2016 Total adjustments	2016 Net exposure	2015 Gross exposure	2015 Total adjustments	2015 Net exposure	Changes net exposure
	(in € millions)						
Non-performing loans	30.0	17.9	12.1	17.8	15.3	2.5	9.6
Unlikely to pay	3.7	0.1	3.6	—	—	—	3.6
Past due loans	46.3	0.1	46.2	43.3	0.1	43.2	3.0
Non-performing loans	80.0	18.1	61.8	**61.1**	**15.4**	**45.7**	16.1
of which forborne	—	—	—	—	—	—	—
Performing loans	2,443	5.8	2,437.2	1,920.0	3.8	1,916.3	520.9
Loans to customers	2,523.0	23.9	2,499.1	**1,981.1**	**19.1**	**1,962.0**	537.1

	As of December 31, 2015 Gross exposure	2015 Total adjustments	2015 Net exposure	2014 Gross exposure	2014 Total adjustments	2014 Net exposure	Changes net exposure
	(in € millions)						
Non-performing loans	17.8	15.3	2.5	19.7	16.8	2.9	(0.4)
Unlikely to pay/Doubtful exposures	—	—	—	0.1	—	0.1	(0.1)
Past due loans	43.3	0.1	43.2	9.8	—	9.8	33.4
Non-performing loans	**61.1**	**15.4**	**45.7**	**29.6**	**16.8**	**12.8**	**32.9**
of which forborne	—	—	—	—	—	—	—
Performing loans	1,920.0	3.8	1,916.3	1,544.8	2.6	1,542.2	374.1
Loans to customers	**1,981.1**	**19.1**	**1,962.0**	**1,574.4**	**19.4**	**1,555.0**	**407.0**

Credit quality ratios

The following tables show the non-recourse receivables purchased as of December 31, 2016, 2015 and 2014, with an indication of impairment losses, divided into "Performing Exposures" and "Impaired Exposures".

	As of December 31, 2016					As of December 31, 2015				
	Gross amount	Impairment losses	% of impairment on gross amount	Net amount	% impairment on total	Gross amount	Impairment losses	% of impairment on gross amount	Net amount	% impairment on total
	(in € thousands)									
Non-recourse receivables purchased										
Performing exposures	2,049,847	(4,056)	(0.2)%	2,045,791	97,3%	1,884,288	(3,750)	(0.2)%	1,880,538	97.6%
Impaired exposures purchased impaired	971	(479)	(49.3)%	492	0.0%	812	(69)	(8.5)%	743	0.0%
Impaired exposures purchased performing	58,084	(2,489)	(4.3)%	55,595	2.6%	46,210	(1,446)	(3.1)%	44,764	2.3%
Total	**2,108,902**	**(7,024)**	**(0.3)%**	**2,101,878**	**100.0%**	**1,931,310**	**(5,265)**	**(0.3)%**	**1,926,045**	**100.0%**

	As of December 31, 2015					As of December 31, 2014				
	Gross amount	Impairment losses	% of impairment on gross amount	Net amount	% impairment on total	Gross amount	Impairment losses	% of impairment on gross amount	Net amount	% impairment on total
	(in € thousands)									
Non-recourse receivables purchased										
Performing exposures	1,884,288	(3,750)	(0.2)%	1,880,538	97.6%	1,526,051	(2,668)	(0.2)%	1,523,383	99.2%
Impaired exposures purchased impaired	812	(69)	(8.5)%	743	0.0%	—	—	—	—	—
Impaired exposures purchased performing	46,210	(1,446)	(3.1)%	44,764	2.3%	13,975	(1,624)	(11.6)%	12,351	0.8%
Total	**1,931,310**	**(5,265)**	**(0.3)%**	**1,926,045**	**100.0%**	**1,540,026**	**(4,292)**	**(0.3)%**	**1,535,734**	**100.0%**

The tables below provide a more detailed breakdown of the Group's impaired assets (including Magellan), as of December 31, 2016, 2015 and 2014.

	As of December 31, 2016						As of December 31, 2015					
	Gross amount	Impairment losses	Net amount	% on Gross total loans	Coverage ratio %	% on Net total loans	Gross amount	Impairment losses	Net amount	% on Gross total loans	Coverage ratio %	% on Net total loans
	(in € thousands)											
Impaired assets												
Non-performing exposure performing when purchased(1)	29,032	17,459	11,573	1.2%	60.1%	0.5%	17,010	15,246	1,764	0.9%	89.6%	0.1%
Non-performing exposure non-performing when purchased(2)	971	479	492	0.0%	49.3%	0.0%	812	69	743	0.0%	8.5%	0.0%
Total non-performing exposures	30,003	17,938	12,065	1.2%	59.8%	0.5%	17,822	15,315	2,507	0.9%	85.9%	0.1%
Unlikely to pay loans	3,715	101	3,614	0.1%	2.7%	0.1%	—	—	—	0.0%	0.0%	0.0%
Past due exposure(3)	46,250	82	46,168	1.8%	0.2%	1.8%	43,310	76	43,234	2.2%	0.2%	2.2%
Impaired loans	**79,968**	**18,121**	**61,847**	**3.2%**	**22.7%**	**2.5%**	**61,132**	**15,391**	**45,741**	**3.1%**	**25.2%**	**2.3%**
Performing exposures	**2,443,009**	**5,762**	**2,437,247**	**96.8%**	**0.2%**	**97.5%**	**1,920,013**	**3,750**	**1,916,263**	**96.9%**	**0.2%**	**97.7%**
Of which: performing expired exposures	*398,944*	*740*	*398,204*	*15.8%*	*0.2%*	*15.9%*	*387,769*	*1,550*	*386,219*	*19.6%*	*0.4%*	*19.7%*
Total	**2,522,977**	**23,883**	**2,499,094**	**100.0%**	**0.9%**	**100.0%**	**1,981,145**	**19,141**	**1,962,004**	**100.0%**	**1.0%**	**100.0%**

	As of December 31, 2014					
	Gross amount	Impairment losses	Net amount	% on Gross total loans	% of hedging	% on Net total loans
			(in € thousands)			
Impaired assets						
Non-performing exposure performing when purchased(1)	19,699	16,763	2,936	1.3%	85.1%	0.2%
Non-performing exposure non-performing when purchased(2)	—	—	—	0.0%	0.0%	0.0%
Total Non-performing exposure	19,699	16,763	2,936	1.3%	85.1%	0.2%
Doubtful loans(3)	62	—	62	0.0%	0.0%	0.0%
Past due exposure(4)	9,795	16	9,779	0.6%	0.2%	0.6%
Impaired loans	**29,556**	**16,779**	**12,777**	**1.9%**	**56.8%**	**0.8%**
Performing exposures	**1,544,848**	**2,668**	**1,542,180**	**98.1%**	**0.2%**	**99.2%**
Of which: performing expired exposures	**255,287**	**1,132**	**254,155**	**16.2%**	**0.4%**	**16.3%**
Total	**1,574,404**	**19,447**	**1,554,957**	**100.0%**	**1.2%**	**100.0%**

(1) The coverage % is calculated from the difference between the adjusted values and the gross values of the non-performing loans

(2) The expired exposures do not include exposures that had already expired when they were purchased

(3) Doubtful loans only refer to loans from Magellan towards principally public counterparties.

(4) The non-performing exposures performing when purchased refer to the exposures to debtors who, at the time of the purchase, did not show any indications of non-performance. The non-performing exposures non-performing when purchased refer specifically to exposures to municipalities that were in financial difficulty (i.e. non-performing) at the time the Group purchased them.

The net value of impaired loans increased from €12,777 thousand as of December 31, 2014 to €45,741 thousand as of December 31, 2015 and to € 61,847 thousand as of December 31, 2016. In percentage terms, the incidence of impaired loans out of the total loan value as of December 31, 2014, 2015 and 2016 was equal to 0.8%, 2.3% and 2.5% respectively.

Due to the Magellan Acquisition, our net impaired loans increased by €9,225 thousand as of December 31, 2016, resulting in a reduction in our coverage of impaired loans. As of December 31, 2016, non-performing loans granted by Magellan represented 1.1% of total net exposures of Magellan.Over the course of the three years, the Group's net exposure has registered an increase in absolute value, primarily as a result of the increase in non-performing loans, going from €2,936 thousand (€19,699 thousand gross amount) as of December 31, 2014 to €2,507 thousand (€17,822 thousand gross amount) as of December 31, 2015, and to €12,065 thousand (€30,003 thousand gross amount) as of December 31, 2016. The increase in exposures as of December 31, 2016 in absolute terms is primarily due to the increase in loans to local authorities. In percentage terms, the non-performing exposure incidence on the total loan amount during the period in question is substantially stable at 0.5%, 0.1% and 0.2% for December 31, 2016, 2015 and 2014 respectively.

The non-performing exposures both gross and net are almost entirely due from the Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a creditors' arrangement. As of December 31, 2016 and 2015, late payment interests accounted for €13.6 million and €13.6 million respectively of the gross non-performing exposures, and have been completely written off. As of December 31, 2016 and 2015, the amount of the gross and past due exposures owed by a government-owned corporation belonging to the Italian national healthcare system accounted for €5.5 million and €32.6 million respectively, equal to 12% and 75.3% of the gross past due exposures as of that date.

The net value of unlikely to pay loans has gone from €62 thousand as of December 31, 2014 to €0 as of December 31, 2015 and € 3.6 million as of December 31, 2016. The increase as of December 31, 2016 is entirely attributable to Magellan's exposure to a public Polish hospital, which in any case is not at risk of default.

The coverage ratio for non-performing loans is substantially similar during the same period. With regard to the percentage of coverage ratio of non-performing loans, there is an overall decrease during the period, going from 85.1% as of December 31, 2014 to 85.9% as of December 31, 2015 and 59.8% as of December 31, 2016. This trend is primarily attributable to the Group's increased operations in purchasing receivables from municipalities, provinces (and cities) and mountain communities. When these receivables become exposures, there is not any kind of deferment or depreciation procedure as they wait for the instability to pass in order to recoup 100% of the Group's receivables.

Since the financial year ended December 31, 2014, the Group has also increased their non-recourse factoring business by means of purchasing receivables from local institutions that are already in financial difficulty and/or undergoing restructuring (e.g. municipalities, provinces, mountain communities, universities), i.e. local bodies or public institutions that could become subject to forced administrative liquidation proceedings, including any activities that are already non-performing at the time of purchase.

Such activities may entail a possibly significant increase in the Company's net and gross exposure.The same data for the year ended on December 31, 2016 (relating to the Group's excluding Magellan), are recorded in the following chart.

	As of December 31, 2016					
	Gross amount	Impairment losses	Net amount	% on Gross total loans	Coverage ratio %(1)	% on Net total loans
			(in € thousands)			
Impaired assets						
Non-performing loans performing when purchased	22,210	15,509	6,701	1.1%	69.8%	0.3%
Non-performing loans non-performing when purchased	971	479	492	0.0%	49.3%	0.0%
Total	**23,181**	**15,988**	**7,193**	**1.1%**	**69.0%**	**0.4%**
Unlikely to pay loans	—	—	—	0.0%	—	0.0%
Past due loans	45,511	82	45,429	2.2%	0.2%	2.2%
Impaired loans	**68,692**	**16,070**	**52,622**	**3.3%**	**23.4%**	**2.6%**
Performing exposures	**2,002,788**	**3,471**	**1,999,317**	**96.7%**	**0.2%**	**97.4%**
Of which: past due not impaired assets	*398,944*	*740*	*398.204*	*19.3%*	*0.2%*	*19.4%*
Total	**2,071,480**	**19,541**	**2,051,939**	**100.0%**	**0.9%**	**100.0%**

(1) The coverage ratio is calculated as the ratio between the value adjustments and the gross value of impaired assets.

The following table shows a breakdown of the Group's loans and receivables toward customers, ordered for geographical area and type of creditor, as of December 31, 2016, 2015 and 2014.

	As of December 31,		
	2016	2015	2014
	(in € thousands)		
Due from customers			
Italy			
National Healthcare Service	860,253	940,902	1,010,689
Public Entities	896,974	714,356	225,723
Other	104,806	85,476	49,712
Spain			
National Healthcare Service	119,639	151,647	224,524
Public Entities	35,013	40,310	22,359
Other	25	16	12
Portugal			
National Healthcare Service	35,229	29,297	21,938
Group Total, excluding Magellan	**2,051,939**	**1,962,004**	**1,554,957**
Poland	358,811	—	—
Slovakia	84,148	—	—
Czech Republic	4,196	—	—
Total Magellan Group	447,155	—	—
Group Total, including Magellan	**2,499,094**	**1,962,004**	**1,554,957**

The following tables present a breakdown of the impairment losses of the Group as of December 31, 2016, 2015 and 2014. During the indicated periods of time, the cost of the Group's credit risk appears to be essentially consistent and was equal to 0.09%, 0.06% and 0.10% as of December 31, 2016, 2015 and 2014, respectively. The ratio between net non performing loans and net worth (including operating profit) of the Group is also essentially consistent and was equal to 3.62% 0.76% and 0.94% as of, respectively, December 31, 2016, 2015 and 2014.

	As of December 31, 2016					As of December 31, 2015				
	Gross amount	Impairment losses	% of impairment on gross amount	Net amount	% on non-recourse receivables purchased	Gross amount	Impairment losses	% of impairment on gross amount	Net amount	% on non-recourse receivables purchased
	(in € thousands)									
Impaired assets										
Past due exposures										
Past due exposures with assigned debtors and other exposures towards debtors	45,716	(82)	(0.2)%	45,634	2.2%	43,310	(76)	(0.2)%	43,234	2.2%
Past due exposures with assignors and other financing	533	—	0.0%	533	0.0%	—	—	0.0%	—	0.0%
Non performing exposures										
Non-performing exposures with assignors and other financing	3,589	(1,220)	(34.0)%	2,369	0.1%	514	(281)	(54.7)%	233	0.0%
Non-performing exposures with assigned debtors and other exposures towards debtors	12,818	(3,122)	(24.4)%	9,696	0.5%	3,712	(1,438)	(38.7)%	2,274	0.1%
Receivables for interest on late payments	13,596	(13,596)	(100.0)%	—	0.0%	13,596	(13,596)	(100.0)%	—	0.0%
Unlikely to pay loans										
Unlikely to pay with assignors and other financing	2,837	(77)	(2.7)%	2,760	0.1%	—	—	—	—	—
Unlikely to pay with assigned debtors and other exposures towards debtors	879	(24)	(2.7)%	855	0.0%	—			—	0.0%
Total	**79,968**	**(18,121)**	**(22.7)%**	**61,847**	**2.9%**	**61,132**	**(15,391)**	**(25.2)%**	**45,741**	**2.4%**

	As of December 31, 2015					As of December 31, 2014				
	Gross amount	Impairment losses	% of impairment on gross amount	Net amount	% on non-recourse receivables purchased	Gross amount	Impairment losses	% of impairment on gross amount	Net amount	% on non-recourse receivables purchased
	(in € thousands, except percentages)									
Impaired assets										
Past due exposures										
Past due exposures with assigned debtors and other exposures towards debtors	43,310	(76)	(0.2)%	43,234	2.2%	9,795	(16)	(0.2)%	9,779	0.6%
Non-performing										
Non-performing exposures with assignors and other financing	514	(281)	(54.7)%	233	0.0%	702	(275)	(39.2)%	427	0.0%
Non-performing exposures with assigned debtors and other exposures towards debtors	3,712	(1,438)	(38.7)%	2,274	0.1%	4,117	(1,608)	(39.1)%	2,509	0.2%
Receivables for interest on late payments	13,596	(13,596)	(100.0)%	—	0.0%	14,880	(14,880)	(100.0)%	—	0.0%
Unlikely to pay(*)										
Unlikely to pay with assigned debtors and other exposures towards debtors	—			—	0.0%	62	—	—	62	0.0%
Total	**61,132**	**(15,391)**	**(25.2)%**	**45,741**	**2.4%**	**29,556**	**(16,779)**	**(56.8)%**	**12,777**	**0.8%**

(*) With regard to December 31, 2014, "Unlikely to pay" has a similar meaning as the previous "Doubtful" label. See "*Risk Management—Credit risk management policies—management measurement and control systems—Impaired Financial Assets*"

It should be noted that the net value of impaired exposures with assignors and other financing and the net value of impaired exposures with assigned debtors and other exposures towards debtors include €5.6 million and €3.6 million, respectively, related to Magellan.

In particular: (i) the net past due exposures with debtors of the Group increased, passing from €2,509 thousand as of December 31, 2014 to €9,696 thousand as of December 31, 2016; (ii) the net amount of the past due exposures with assigned debtors and other exposures towards debtors passed from €9,779 thousand as of December 31, 2014, to €45,634 thousand as of December 31, 2016; (iii) the net non-performing exposures with assignors and other financing were equal to €427 thousand as of December 31, 2014 and €533 thousand as of December 31, 2016; (iv) gross impaired loans with assignors and other financing went from €702 thousand as of December 31, 2014 to €6,959 thousand as of

December 31, 2016; and (v) the net value of the impaired exposures passed from €12,777 thousand as of December 31, 2014 and €61,847 thousand as of December 31, 2016, mainly due to the Magellan Acquisition, which entailed a larger amount of net non-performing exposures equal to €4,872 thousand as of December 31, 2016. Concerning coverage ratios, the coverage ratio of impaired exposures and of the total number of receivables and loans has been mostly consistent in the indicated time frame. In particular, the coverage ratio of impaired exposures of the Group is generally lower that those showing from system data, mainly due to the fact that the Group's counterparties are almost exclusively public entities or publically owned joint stock companies and, as such, are characterized by a lower risk of non performance than retail and standard corporate counterparties. As of December 31, 2016, the purchase of receivables held against public entities consists in 99% of the total net amount of impaired exposures originated by the Non-Recourse Factoring business in relation to the Traditional Activities. The table below shows our credit quality indicators and the average system data as of December 31, 2016, 2015 and 2014.

	As of December 31,					
	2016		2015		2014	
	Group	Average system data (less significant banks)(1)	Group	Average system data (small banks)(1)	Group	Average system data (small banks)(1)
Gross impaired loans/Gross loans	3.2%	n.a.	3.1%	18.7%	1.9%	16.8%
Impaired loans coverage ratio	22.7%	n.a.	25.2%	40.8%	56.8%	36.5%
Gross non-performing loans/Gross loans	1.2%	n.a.	0.9%	10.5%	1.3%	8.6%
Non performing loans coverage ratio	59.8%	n.a.	85.9%	55.3%	85.1%	52.1%
Gross unlikely to pay loans/Gross loans	0.1%	n.a.	0.0%	8.3%(2)	0.0%	7.2%(4)
Unlikely to pay loans coverage ratio	—	n.a.	—	22.5%	—	19.8%
Gross past due exposures/Gross loans	1.8%	n.a.	2.2%	n.a.(3)	0.6%	0.9%(4)
Past due exposures coverage ratio	0.2%	n.a.	0.2%	n.a.(3)	0.2%	5.9%

(1) Source: Bank of Italy—"Financial Stability Report No. 1-2016"; "Financial Stability Report No.1—2015"; "Financial Stability Report No.1—2014", respectively for the data as of December 31, 2016, 2015, 2014. The figures are gross of the corresponding write-downs. The coverage ratio is given by the amount of value adjustments in relation to the corresponding gross exposure. The category "minor banks" includes banks belonging to groups or independent with total assets of less than € 3.6 billion. The category "small banks" includes banks belonging to groups or independent with total assets between €3.6 billion and € 21.5 billion. The category "less significant banks", introduced with the "Financial Stability Report No.2—2016, includes the banks supervised by the Bank of Italy in close cooperation with the ECB. No information provided in this column as we are a "less significant bank" as of December 31, 2016.

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

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

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

Deposits

Customer deposits, securities and interbank borrowings

The principal components of our funding are customer deposits (current accounts or time deposits and savings accounts), repurchase agreements, certificates of deposit, bonds, subordinated debt, and interbank funding. Domestic current and savings accounts are primarily interest bearing accounts. For more information, see also "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources*".

Funding by type

The following tables present a breakdown of amounts due to banks, due to customers and securities issued as of December 31, 2016, 2015 and 2014.

	For the year ended December 31,							
	2016		2015		2014		Changes	
	Amount	% break-down	Amount	% break-down	Amount	% break-down	Amount	%
	(in € thousands)							
Syndicated loans	—	0.0%	109,810	4.0%	519,619	20.9%	(409,809)	(78.9)%
Bilateral loans(1)	634,807	15.2%	372,266	13.6%	28,637	1.2%	343,629	n.s.
Central banks	—	0.0%	206,000	7.5%	420,000	16.9%	(214,000)	(50.9)%
Other debt	—	0.0%	5	0.0%	8	0.0%	(3)	(37.5)%
Due to banks	**634,807**	**15.2%**	**688,081**	**25.1%**	**968,264**	**38.9%**	**(280,183)**	**(28.9)%**
Securitization	85,000	2.0%	150,000	5.5%	166,650	6.7%	(16,650)	(10)%
Bonds(2)	545,334	13.0%	300,000	10.9%	300,000	12.1%	0	0.0%
Securities issued	**630,334**	**15.1%**	**450,000**	**16.4%**	**466,650**	**18.8%**	**(16,650)**	**(3.6)%**
Repo transactions(3)	1,809,044	43.2%	920,471	33.6%	595,034	23.9%	325,437	54.7%
Online term deposit accounts(3)	822,438	19.7%	416,652	15.2%	226,258	9.1%	190,394	84.1%
Other financing(3)	288,653	6.9%	267,014	9.7%	231,946	9.3%	35,068	15.1%
Total Funding	**4,185,276**	**100.0%**	**2,742,218**	**100.0%**	**2,488,152**	**100.0%**	**254,066**	**10.2%**

(1) As of December 31, 2016 bilateral lines include, for €80,508 thousand, a dedicated loan signed by the Company and UniCredit as part of the Magellan Acquisition.

(2) Nominal value.

(3) These liabilities are classified in the balance sheet item "Due to customers".

The following chart shows the details of the amount of financial resources (excluding the Group's own funds) agreed and utilized by the Group as of December 31, 2016, 2015 and 2014.

	As of December 31, 2016		As of December 31, 2015		As of December 31, 2014	
	Utilized	Agreed (at nominal value)	Utilized	Agreed (at nominal value)	Utilized	Agreed (at nominal value)
	(in € thousands)					
Funding Sources						
Syndicated loans	—	—	109,810	110,000	519,619	522,500
Bilateral loans(1)	634,807	1,398,370	372,266	874,000	28,637	480,000
Central banks	—	—	206,000	206,000	420,000	420,000
Other debts	—	—	5	—	8	—
Due to banks	**634,807**	**1,398,370**	**688,081**	**1,190,000**	**968,264**	**1,422,500**
Securitization transactions	85,000	85,000	150,000	150,000	166,650	250,000
Bond issues(2)	545,334	545,334	300,000	300,000	300,000	300,000
Securities issued	**630,334**	**630,334**	**450,000**	**450,000**	**466,450**	**550,000**
Repo transactions(3)	1,809,044	1,809,044	920,471	920,471	595,034	595,034
Online term deposit accounts(3)	822,438	822,438	416,652	416,652	226,258	226,258
Other financing(3)	288,653	386,685	267,014	330,000	231,946	290,000
Total	**4,185,276**	**5,046,871**	**2,742,218**	**3,307,123**	**2,488,152**	**3,083,792**

(1) As of December 31, 2016 bilateral lines include, for €80,508 thousand, a dedicated loan signed by the Company and UniCredit as part of the Magellan Acquisition.

(2) Nominal value.

(3) Such debts are classified under "Due to customers" in our balance sheet.

The following table provides an analysis of our funding sources, agreed and utilized, ordered by type (except for the Group's own funds) as of December 31, 2016, based on the inclusion or exclusion of Magellan from the Group.

	As December 31, 2016				Group Total (as of December 31, 2016)	
	Group excluding Magellan		Group including Magellan			
	Utilized	Agreed (at nominal value	Utilized	Agreed (at nominal value	Utilized	Agreed (at nominal value
			(in € thousands)			
Funding Sources						
Syndicated loans	—	—	—	—	—	—
Bilateral loans(1)	603,346	1,331,008	31,461	67,362	634,807	1,398,370
Central banks	—	—	—	—	—	—
Other debts	—	—	—	—	—	—
Due to banks	**603,346**	**1,331,008**	**31,461**	**67,362**	**634,807**	**1,398,370**
Securitization transactions	85,000	85,000	—	—	85,000	85,000
Bond issues(2)	450,000	450,000	95,334	95,334	545,334	545,334
Securities issued	**535,000**	**535,000**	**95,334**	**95,334**	**630,334**	**630,334**
Repo transactions(3)	1,809,044	1,809,044	—	—	1,809,044	1,809,044
Online term deposit accounts(3)	822,438	822,438	—	—	822,438	822,438
Other financing(3)	231,790	330,000	56,863	56,685	288,653	386,685
Total	**4,001,618**	**4,827,490**	**183,658**	**219,381**	**4,185,276**	**5,046,871**

(1) As of December 31, 2016 bilateral lines include, for €80,508 thousand, a dedicated loan signed by the Company and UniCredit as part of the Magellan Acquisition.

(2) Nominal value.

(3) Such debts are classified under "*Due to customers*" in our balance sheet.

The following tables provide an analysis of our funding sources, agreed and utilized, ordered by currency (except for the Group's own funds) as of December 31, 2016, based on the inclusion or exclusion of Magellan from the Group.

	As of December 31, 2016		
	€	PLN	Total
	(in € thousands)		
Group (including Magellan)			
Funding Sources			
Bilateral loans	522,838	111,969(1)	634,807
Other debts	—	—	—
Due to banks	**522,838**	**111,969**	**634,807**
Securitization transactions	85,000	—	85,000
Bond issues(2)	479,125	66,209	545,334
Securities issued	**564,125**	**66,209**	**630,334**
Repo transactions(3)	1,809,044	—	1,809,044
Online term deposit accounts(3)	822,438	—	822,438
Other financing(3)	231,790	56,863	288,653
Total	**3,950,235**	**235,041**	**4,185,276**

	As of December 31, 2016		
	€	PLN	Total
	(in € thousands)		
Group (excluding Magellan)			
Funding Sources			
Bilateral loans	522,838	80,508[(1)]	603,346
Other debts	—	—	—
Due to banks	**522,838**	**80,508**	**603,346**
Securitization transactions	85,000	—	85,000
Bond issues[(2)]	450,000	—	450,000
Securities issued	**535,000**	**—**	**535,000**
Repo transactions[(3)]	1,809,044	—	1,809,044
Online term deposit accounts[(3)]	822,438	—	822,438
Other financing[(3)]	231,790	—	231,790
Total	**3,921,110**	**80,508**	**4,001,618**

(1) As of December 31, 2016 bilateral lines include, for €80,508 thousand, a dedicated loan signed by the Company and Unicredit as part of the Magellan Acquisition.

(2) Nominal value.

(3) Such debts are classified under "*Due to customers*" in our balance sheet.

Funding: average balances and maturities

The following tables present average balances of our Group's total funding as of December 31, 2016, 2015 and 2014.

	Average balance for the year ended December 31,[(1)]		
	2016	2015	2014
	(in € thousands)		
Total funding (average balance)	3,439,212	2,518,958	1,705,144
Financial expenses related to total funding	31,020	29,085	44,715

	Average balance for the year ended December 31,[(1)]		
	2016	2015	2014
	(in € thousands)		
Total funding (average balance) excluding central banks and repurchase agreements	1,909,936	1,382,469	1,276,904
Financial expenses related to total funding excluding central banks and repurchase agreements	36,353	29,928	44,245

(1) Determined as the arithmetic average of quarterly financials.

In the second half of 2016 the cost of funding excluding the Group's central bank funding and repo transactions (and excluding Magellan) is equal to 1.8% (including the costs relating to the derivative agreements that are in place). In the same period, the cost of funding, excluding central bank funding and repo transactions (but including Magellan for six months) is equal to 2.1% (the average of financial resources, excluding central banks and repo transactions for the first half of 2016 and including Magellan for six months, is equal to €2,141 million). In 2015, the cost of funding excluding central bank funding and repo transactions and including Magellan for twelve months, is equal to 2.6% (the average of the financial resources excluding central banks and repo transactions and including Magellan for 12 months, is equal to €1,649 million).

The Magellan Group's cost of funding passed from 4.8% in the last quarter of 2015 to 4.6% in the second quarter of 2016 and to 4.5% in the last quarter of 2016. From the second half of 2016, the Group has started to pursue a strategy for the optimization of Magellan's financial resources, aimed at aligning Magellan's cost of funding to that of the Company.

As of December 31, 2016, Magellan's bond issues, a part denominated in Euro and the other in PLN, have a nominal value equal to €95,334 thousand and they refer to the issuance placed via mBank both to institutional investors and retail clients. These bond issues do not have a rating, they are unsecured and they are listed on the Polish stock exchange for bonds called "Catalyst". In agreement with the amortization plan which is currently in place, the residual owed amount relating to the bond issues is equal to PLN 162 million as of the end of the first half of 2017, to PLN 107 million at the end of 2017, to PLN 103 million at the end of 2018 and PLN 49 million at the end of 2019. Assuming a Wibor six-month interest rate at 1.80% and a Euro/Zloty exchange rate equal to 4.4102, the average cost of the bond issuance relating to Magellan is equal to 4.79% as of December 31, 2016.

The following table shows the breakdown by maturity of our funding operations as of December 31, 2016 and December 31, 2015.

	As of December 31, 2016	As of December 31, 2015
	(in € thousands)	
Maturity		
On demand	31,544	25,201
From day 1 to three months	1,678,834	1,250,461
From 3 months to 6 months	857,125	301,104
From 6 months to 12 months	890,430	373,306
From 1 year to 5 years	727,343	792,101
Over 5 years		45
Total	**4,185,276**	**2,742,218**

Funding by maturity

As a financial institution, our Group's sources of funding are the principal components of its obligations and commitments to make future payments under contracts. The following table sets forth the principal components of the Group's sources of funding by maturity as of December 31, 2016, 2015 and 2014.

	As of December 31, 2016 (Euro)									
	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
	(in € thousands)									
On-balance sheet assets	**692,224**	**9,955**	**56,079**	**22,650**	**252,928**	**685,466**	**679,581**	**1,593,286**	**55,899**	
Government securities			50,124		222,737	506,051	363,439	872,247		
Other securities	—	—	—	—	—	—	—	—	—	—
O.I.C.R. units	—	—	—	—	—	—	—	—	—	—
Loans	692,225	9,955	5,954	22,650	30,190	179,415	316,142	721,039	55,899	
Of which:										
—Banks	131,455	5,174								
—customers	560,769	4,781	5,954	22,650	30,190	179,415	316,142	721,039	55,899	

	As of December 31, 2016 (Euro)									
	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
	(in € thousands)									
On-balance sheet exposures	**194,013**	**353,675**	**325,232**	**702,496**	**349,015**	**823,287**	**777,762**	**566,193**	**—**	**4,636**
Deposits and current accounts	34,647	25,073	19,638	38,451	211,084	231,795	494,228	292,835	—	—
Of which:	—	—	—	—	—	—	—	—	—	—
—Banks	*107*	*5,000*	—	—	*67,000*	*67,500*	*250,000*	*133,231*	—	—
—customers	*34,540*	*20,073*	*19,638*	*38,451*	*144,084*	*164,295*	*244,228*	*159,604*	—	—
Debt securities	—	—	—	—	9,725	303,339	13,300	156,500	—	—
Other exposures	159,366	328,602	305,594	664,045	128,206	288,153	270,233	116,858	—	4,636

	As of December 31, 2016 (Euro)									
	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
	(in € thousands)									
Off-balance sheet exposures	**0**	**0**	**7,000**	**18,388**	**72,480**	**115**	**14,273**	**6,685**	**0**	**0**
Financial derivatives with exchange of capital	0	0	7,000	18,388	62,024	0	—	0	0	—
—long positions	—	—	—		—	—	—	—	—	—
—short positions	—	—	7,000	18,388	62,024	—	—	—	—	—
Financial derivatives without exchange of capital	0	0	0	0	10,456	115	14,273	6,685	0	0
—long positions	—	—	—	—	10,456	115	14,273	6,685	—	—
—short positions	—	—	—	—	—	—	—	—	—	—

	As of December 31, 2016 (other currencies)									
	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
	(in € thousands)									
On-balance sheet assets	**27,311**	**601**	**1,901**	**287**	**29,814**	**11,940**	**62,126**	**138,784**	**87,121**	**18,892**
Government securities	—	—	—	—	—	—	—	—	—	—
Other securities	—	—	—	—	—	—	—	—	—	—
O.I.C.R. units	—	—	—	—	—	—	—	—	—	—
Loans	27,311	601	1,901	287	29,814	11,940	62,126	138,784	87,121	18,892
Of which:										
—Banks	*55*	—	—	—	—	—	—	—	—	—
—customers	*27,256*	*601*	*1,901*	*287*	*29,814*	*11,940*	*62,126*	*138,784*	*87,121*	*18,892*

	As of December 31, 2016 (other currencies)									
	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
	(in € thousands)									
On-balance sheet exposures	**0**	**151**	**0**	**4,660**	**88,709**	**41,451**	**25,415**	**162,223**	**1,843**	**20,735**
Deposits and current accounts	0	151	0	2,059	6,720	8,613	14,245	82,549	0	1,843
Of which:										—
—Banks	—	*151*	—	*2,059*	*4,118*	*8,613*	*14,245*	*82,549*	—	—
—customers	—	—	—	—	*2,601*	—	—	—	—	*1,843*
Debt securities	—	—	—	—	—	27,152	11,170	28,497	—	—
Other exposures	0	0	0	2,601	81,989	5,686	0	51,176	1,843	18,892

	As of December 31, 2016 (other currencies)									
	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
	(in € thousands)									
Off-balance sheet exposures	**0**	**0**	**7,000**	**18,388**	**72,480**	**115**	**14,656**	**6,685**	**0**	**0**
Financial derivatives with exchange of capital	0	0	7,000	18,388	62,024	0	0	0	0	—
—long positions	—	—	—		—	—	—	—	—	—
—short positions	—	—	7,000	18,388	62,024	—	—	—	—	—
Financial derivatives without exchange of capital	0	0	0	0	10,456	115	14,656	6,685	0	0
—long positions	—	—	—	—	—	—	253	—	—	—
—short positions	—	—	—	—	10,456	115	14,403	6,685	—	—

	As of December 31, 2015									
	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
	(in € thousands)									
On-balance sheet assets	**572,886**	**11,622**	**48,463**	**23,432**	**177,037**	**353,056**	**622,900**	**1,437,286**	**38,646**	**—**
Government securities	—	—	11,121	—	42,334	67,509	177,186	945,442	—	—
Other securities	—	—	—	—	—	—	—	—	—	—
O.I.C.R. units	—	—	—	—	—	—	—	—	—	—
Loans	572,886	11,622	37,342	23,432	134,703	285,547	445,714	491,844	38,646	—
Of which:										
—Banks	49,989	5,788	—	—	—	—	—	—	—	—
—customers	522,897	5,834	37,342	23,432	134,703	285,547	445,714	491,844	38,646	—

	As of December 31, 2015									
	On demand	**Between 1 and 7 days**	**Between 7 and 15 days**	**Between 15 days and 1 month**	**Between 1 and 3 months**	**Between 3 and 6 months**	**Between 6 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Unspecified maturity**
	(in € thousands)									
On-balance sheet exposures	**145,219**	**366,365**	**278,717**	**525,855**	**79,674**	**309,626**	**371,029**	**792,092**	**45**	**—**
Deposits and current accounts	22,580	23,447	7,006	14,013	79,674	189,990	225,475	336,487	45	
Of which:										
—Banks	—	5,000	—	—	25,006	149,811	64,969	237,291	—	—
—customers	22,580	18,447	7,006	14,013	54,668	40,179	160,506	99,196	45	
Debt securities	—	—	—	—	—	8,227	—	300,000	—	—
Other exposures	122,639	342,918	271,711	511,842	—	111,409	145,554	155,605	—	—

	As of December 31, 2015									
	On demand	**Between 1 and 7 days**	**Between 7 and 15 days**	**Between 15 days and 1 month**	**Between 1 and 3 months**	**Between 3 and 6 months**	**Between 6 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Unspecified maturity**
	(in € thousands)									
Off-balance sheet exposures	—	—	—	—	—	—	—	—	—	—
Financial derivatives with exchange of capital	—	—	—	—	—	—	—	—	—	—
—long positions	—	—	—	—	—		—	—	—	—
—short positions	—	—	—	—	—	—	—	—	—	—

	As of December 31, 2014									
	On demand	**Between 1 and 7 days**	**Between 7 and 15 days**	**Between 15 days and 1 month**	**Between 1 and 3 months**	**Between 3 and 6 months**	**Between 6 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Unspecified maturity**
	(in € thousands)									
On-balance sheet assets	**443,105**	**8,931**	**23,765**	**20,324**	**216,745**	**408,264**	**1,030,573**	**823,321**	**2,936**	**919**
Government securities	276	—	22,042	—	119,679	91,690	574,300	498,795	—	—
Other securities	—	—	—	—	—	—	—	—	—	—
O.I.C.R. units	—	—	—	—	—	—	—	—	—	—
Loans	442,829	8,931	1,723	20,324	97,066	316,574	456,273	324,526	2,936	919
Of which:										
—Banks	96,807	—	—	—	—	—	—	—	—	919
—customers	346,022	8,931	1,723	20,324	97,066	316,574	456,273	324,526	2,936	—

	As of December 31, 2014									
	On demand	**Between 1 and 7 days**	**Between 7 and 15 days**	**Between 15 days and 1 month**	**Between 1 and 3 months**	**Between 3 and 6 months**	**Between 6 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Unspecified maturity**
	(in € thousands)									
On-balance sheet exposures	**126,502**	**420,000**	**206,887**	**352,920**	**105,884**	**219,009**	**130,944**	**879,613**	**166,650**	**—**
Deposits and current accounts	10,572	—	5,043	25,087	526	219,009	130,944	387,667	—	—
Of which:										
—Banks	5	—	—	15,000	—	218,000	10,000	307,500	—	—
—customers	10,567	—	5,043	10,087	526	1,009	120,944	80,167	—	—
Debt securities	—	—	—	—	—	—	—	300,000	166,650	—
Other exposures	115,930	420,000	201,844	327,833	105,358	—	—	191,946	—	—

	As of December 31, 2014									
	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
	(in € thousands)									
Off-balance sheet exposures	—	—	—	—	—	—	—	—	—	—
Financial derivatives without exchange of capital	46	—	—	—	—	47	—	—	—	—
—long positions	—	—	—	—	—	—	—	—	—	—
—short positions	46	—	—	—	—	47	—	—	—	—

As of December 31, 2016 and December 31, 2015 the on-balance sheet assets were mainly attributable to medium and long-term uses. The medium and long-term exposures include the collection made through repos and liabilities towards the ECB. This collection is entirely carried out in relation to the Italian government securities in portfolio and does not imply, in our view, any liquidity risk, considering that these transactions may, if necessary, be spread until the expiry of the asset that has been given as guarantee in relation to the condition of full allotment granted by the ECB for the open market operations.

We pursue the structuring of a funding policy aimed at reaching an adequate level of financial flexibility which supports our business activity and the efficient use of the temporary surplus of liquidity, in order to lessen the cost of funding of the asset and liabilities analysis.

We monitor the expected performance of prospective income and expenditures in order to create and update a maturity ladder (or gap analysis) which is functional to the activation and management of our medium-long term funding operations. The medium-long term gaps are listed and monitored on the basis of the perspective maturity of assets and the contractual expiry dates of the financing sources.

Return on equity and assets

The following table provides a summary of the main profitability indicators for the years ended December 31, 2016, 2015 and 2014.

	For the year ended December 31,		
	2016	2015	2014
	(in € millions, except percentages)		
Net income (loss)	72.1	68.8	124.4
Average total assets(1)	4,151.0	3,094.7	2,391.4
Net income as a percentage of average total assets (ROA)(1)	1.7%	2.2%	5.2%
Net income as a percentage of average shareholders' equity (ROE)	27.6%	26.2%	47.4%

(1) Determined as the arithmetic average balance as of December 31 of the precedent year.

INDUSTRY

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

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

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

Overview

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

Factoring contracts can be divided in two types, recourse and non-recourse. In recourse factoring, the transferor retains the risk of insolvency of the transferred debtor, whereas in non-recourse factoring the credit risk is entirely transferred to the factor.

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

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

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

Factoring played a significant role in supporting commercial activity in the recent recession, by providing liquidity and reducing imbalances due to late payments of commercial transactions, alongside government measures designed to improve payment times.

Factoring has traditionally been cheaper than other forms of financing, by 1%/2% in the fourth quarter of 2016 (*Source: Bank of Italy*), having a lower risk profile (in terms of percentage of non-performing loans) compared to that recorded for traditional bank receivables, with an incidence of 3.4% of non-performing loans in relation to total receivables, versus 10.6% in December 2015 (*Source: Assifact and Bank of Italy*).

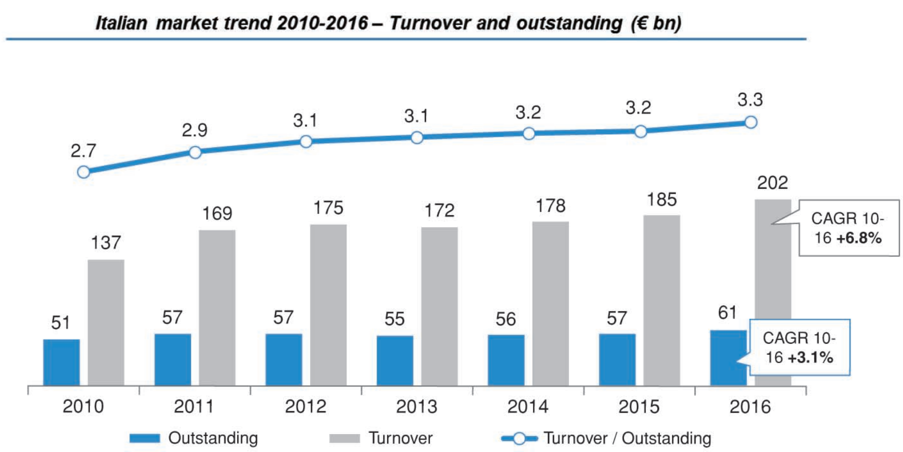
The lower cost and lower incidence of non-performing loans is also increased by the ability to undertake double risk assessment in factoring. This implies that risk assessment is not limited solely to the borrower but also extends to the assessment of the debtor transferred under the relative factoring agreement and to the type of underlying transaction to which the factoring relates. The factor is able to obtain a more accurate estimate of the intrinsic risk of the commercial transaction, because the factor assumes or inherits the risk of the original creditor in the management of the trade receivable. Conversely, in traditional bank credit, the lender may not have a direct understanding of the evolution of the supplier/client trade relationship.

Italian Factoring Market

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

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

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



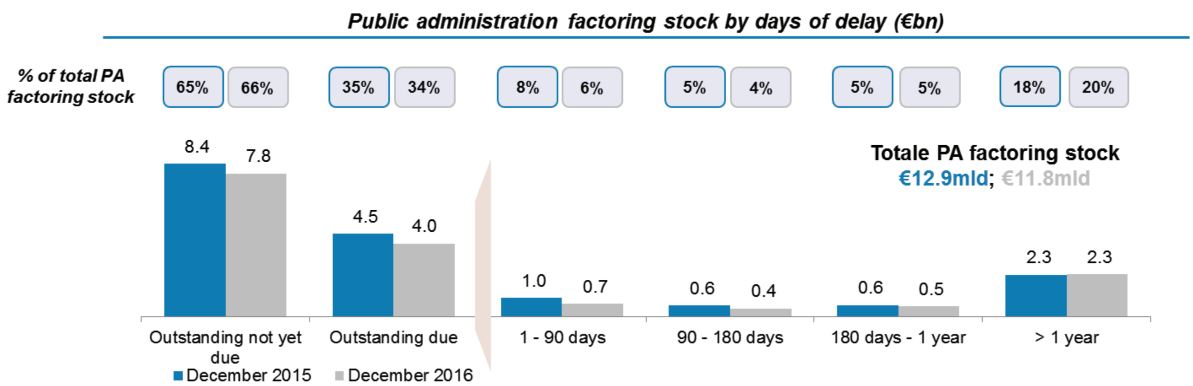
Source: Assifact, Factor Chain International

In recent years, non-recourse factoring accounted for approximately two thirds of total turnover and as of December 31, 2016, it comprised 70% of the stock of existing receivables, including purchase of VAT receivables and other tax receivables. In relation to the breakdown of debtors, at the end of 2016 approximately 22.6% of the stock was represented by receivables held against the public administration (not including companies under state control) of which approximately 8.4% of the total stock came from the healthcare sector, and approximately 55.3% came from non-financial entities. As of June 30, 2016 the receivables claimed from the public administration represented a quota of 24% of the stock, while receivables from non-financial entities represented the 54% of the total (*Source: Assifact*).

The stock of non-recourse receivables held *vis-à-vis* the public administration, equal to €7.3 billion in 2016, went down by 5.0% compared to 2015, also due to the introduction of the split payment mechanism, anyhow raising its share (62% as of December 2016 compared to 59% in 2015) in the overall amount of receivables held *vis-à-vis* the public administration, decreasing from €12.9 billion in December 2015 to €11.8 billion in December 2016. As of June 30, 2016 the quota of non-recourse receivables claimed towards the public administration (€6.9 billion) on the total receivables claimed toward the public administration (€11.6 billion) remained in line with 2015 (at 59.5%) (*Source: Assifact*).

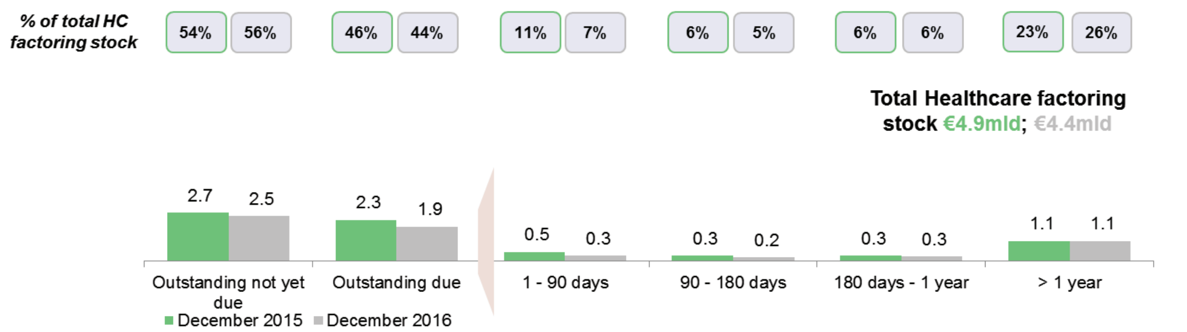
Taking into account the average turnover ratio (turnover/outstanding) of the main active operators in the purchasing of receivables held *vis-à-vis* the public administration (approximately 1.8x per year, based on turnover volumes towards the public administration of the main operators in the public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

Additionally, given 2015 VAT expenditures for goods and services were not impacted by the Split Payment Mechanism, the penetration rate was actually higher. In terms of payment periods, at the end of 2016 approximately 34% of the stock of loans claimed from the public administration and purchased by the factoring companies (equal to €4.0 billion) was classified as matured receivables, in particular receivables past due by more than a year (approximately 20% of the stock of loans from the public administration, equal to €2.3 billion). Those due within 1-90 days totaled approximately 6% of the stock of loans from the public administration, equal to €0.7 billion. In particular, the healthcare sector presents the highest percentage of overdue receivables (approximately 44% of the total), of which approximately 26% of the stock of loans held against public healthcare (equal to €1.1 billion) was found to be past due by more than a year, followed by those due within 1-90 days (approximately 7% of the stock of the loans from the public healthcare, equal to €0.3 billion). The quota reaches 53% for the entities of the healthcare sector (i.e. €2.4 billion).



Source: Company analysis of Assifact data and company internal data

Public healthcare factoring stock by days of delay (€bn)



Source: Company analysis of Assifact data and company internal data

Spanish Factoring Market

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

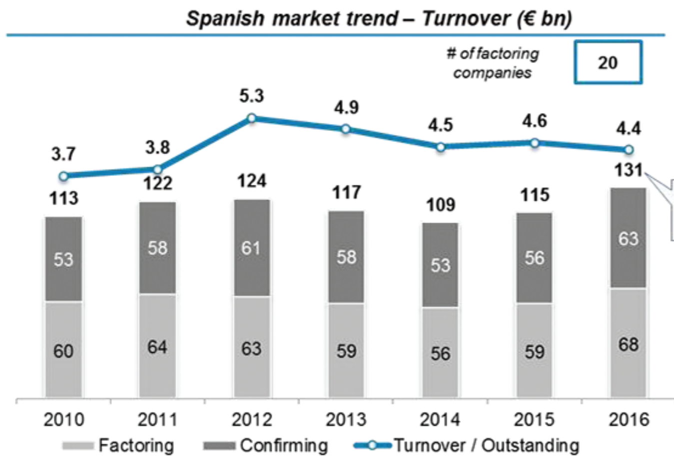
The volumes of the Spanish factoring market remained substantially stable during the period between 2010-2015 (CAGR 0.4%): the positive trend in the period between 2010 and 2012, with turnover increasing to €124 billion (CAGR 5%) has been followed by a phase of contraction between 2012-2015 (CAGR 2.4%).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

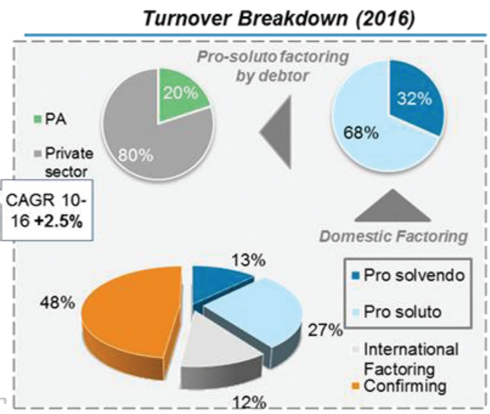
In 2016, the volumes of the sold receivables registered an increase of 6.8% compared to the same period of the previous year, for a turnover of €130.7 billion; €67.9 billion of which are represented by proceeds from the traditional factoring activities. The non-recourse factoring contracts amounted to €35.7 billion, of which €6.3 billion claimed toward the Public Administration (*Source: Company internal data*). The growth in volumes in 2016 is also due to new AEF members, and one of them did not provide 2015 data. However, considering volumes related to 2016 new members, total 2015 volumes would be above €122.4 billion.

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

In 2016, the turnover of non-recourse receivables from public entities, was equal to approximately €6.3 billion (€8.9 billion, including recourse receivables), representing 20% of the total of non-recourse factoring in the market, with the share decreasing to 9% of total factoring volumes (excluding confirming). Given that government expenditures for goods and services was approximately €56.4 billion in 2015 (*Source: Reino de España*), the penetration of non-recourse factoring products in the public entities segment was equal to approximately 16% (of which 12% only takes into account the non-recourse receivables turnover quota).

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





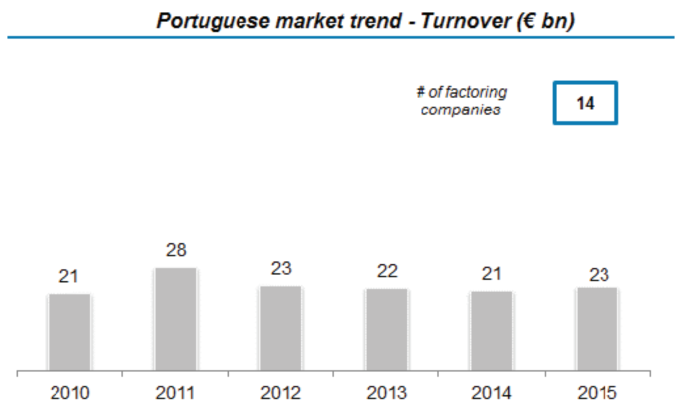
Source: AEF, Factor Chain International

Portuguese Factoring Market

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

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

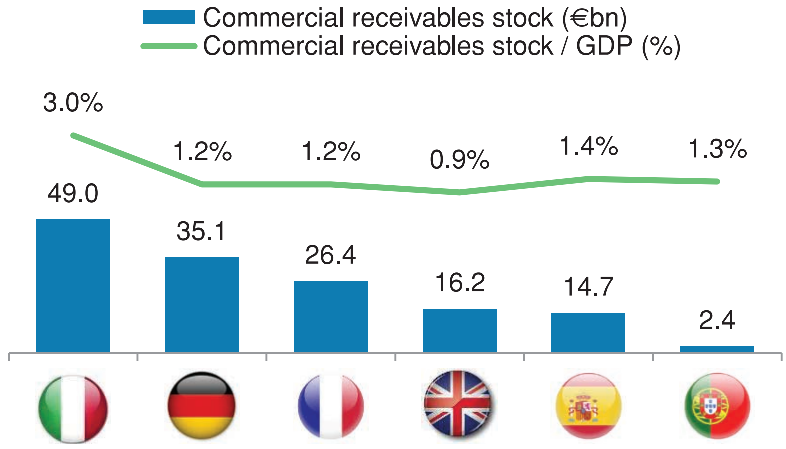
In recent years, trends in acquired receivables reflect strong variability, with 34% annual growth between 2010-2011, followed by a significant decline in volumes (−8% annually from 2011 to 2014). In 2015, volumes of purchased credits increased (7.1%) compared to the previous year.



Source: Factor Chain International, EUF

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

Public sector commercial receivables by country (2015)



Source: Eurostat

Market for Public Spending for Goods and Services

Italy

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

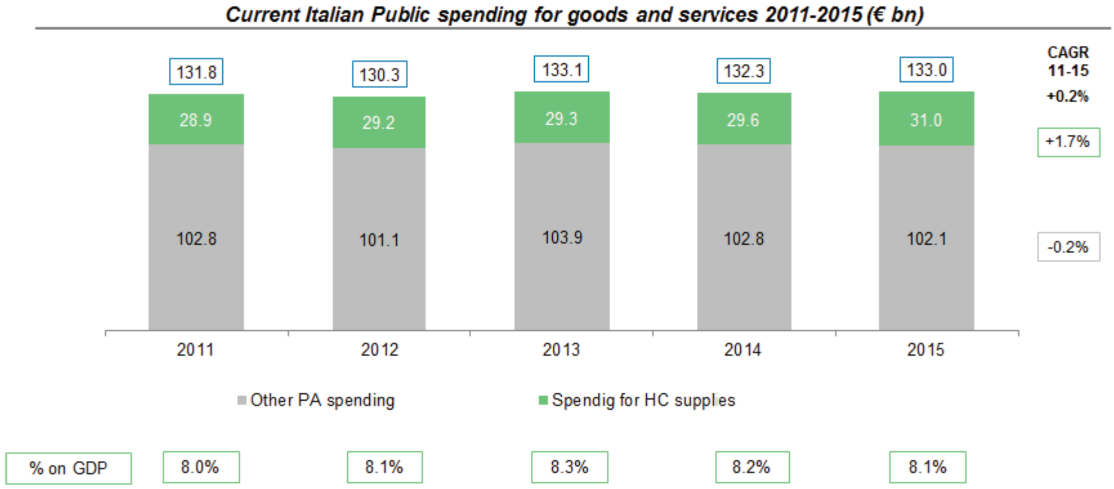
We have focused our business on factoring and on the management of the receivables which suppliers claim from the public administration. Based on the characteristics of this business model, the expense for goods and services is the public spending item of reference; these are the outlays for the purchase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

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

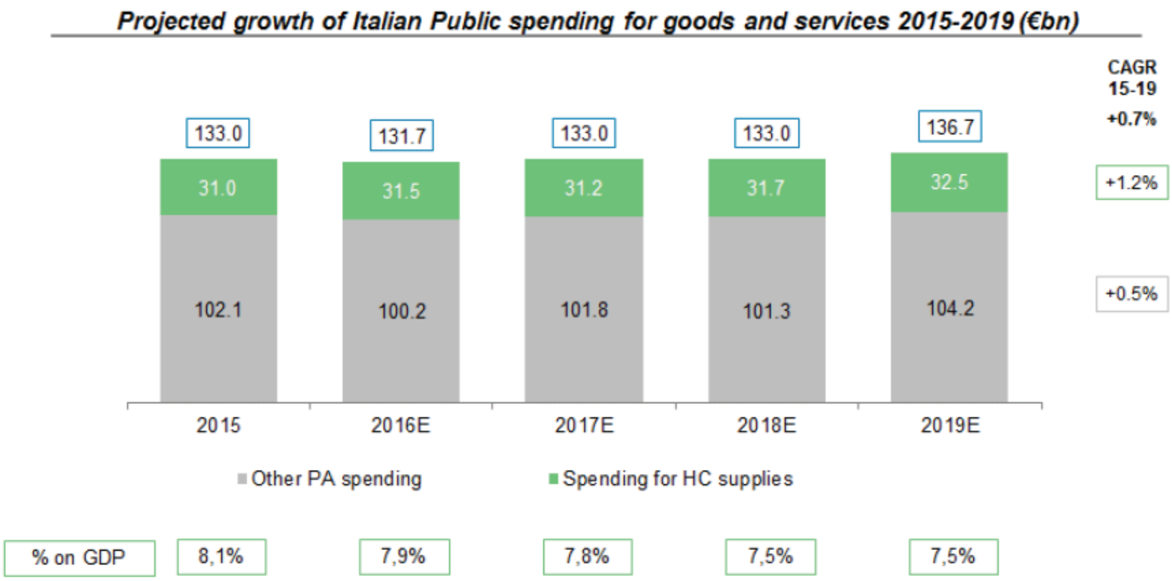
Despite recent initiatives adopted by the Italian government, the relevant market has a stable trend. Between 2011 and 2015, public spending had a stable trend, due mainly to spending cuts undertaken by the Italian government to face the adverse economic conditions of the country. The public spending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

Public finance projections for the period from 2016 to 2019 estimate an increase in public spending for goods and services, expected to reach €136.7 billion in 2019 compared to €133.0 billion in 2015 (0.7% CAGR) (*Source: Documento di Economia e Finanza 2016*). This increase in public spending, connected to a reduction in its proportion of the GDP, from 8.1% in 2015 to 7.5% in 2019, as a consequence of the legislative measures approved in March 2015 with specific reference to the issue of the payment of the previous debts of the public administrations. The update of the Economy and Finance Document as of 30 September 2016 has slightly revised the estimates of expenditure for the next five years, particularly in relation to the savings in spending on goods and services estimated for 2016, which are expected to be in line with 2015 at €133.4 billion.

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



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



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

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

- Italian Decree Law No. 35/2013 aimed at assuring payment to enterprises of overdue receivables of approximately €40 billion within 12 months, starting from mid-2013.
- Italian Decree Law No. 102/2013, whereby the government allocated an additional amount of €7.2 billion for 2013.
- The 2014 Italian Stability Law, which allocated an additional amount of €0.5 billion.
- Italian Decree Law No. 66/2014 which provided for an additional of €9.3 billion liquidity injection during the course of 2014, of which €3.8 billion to Regions and autonomous provinces, €5 billion to local authorities and €0.55 billion to the ministries. The decree introduced: (i) the electronic invoicing requirement for the public administration, to make public spending data available to the government and (ii) the opportunity to receive a State guarantee certifying receivables from the public administration arising before December 31, 2013, subject to certification of an application before October 31, 2014 and transferred to financial intermediaries.

- The 2015 Italian Stability Law, which reversed the prior trend and instead prescribed measures to streamline spending, to be implemented by the Regions, with cuts amounting to 0.28% of GDP 2015-2018, corresponding to approximately €4.5 billion (*Source*: *MEF2016 budget planning document*). This measure could also have repercussions on the ability to pay entities which are part of the Italian national healthcare system, which is directly financed at the regional level.
- The 2016 Italian Stability Law which provides for a stable amount of financial resources to be allocated to the Italian national healthcare system amounting to approximately €111 billion during 2016, €2 billion less than the €113 billion DEF provided in the economic and financial document (i.e., a document approved by the Italian government and which sets forth the main economic policies and guidelines 2015) (*Documento di Economia e Finanza or* "**DEF**") (*Source*: *MEF2016 budget planning document*). However, approximately €2 billion of additional incremental expenses are expected compared to the 2015 forecast.

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

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

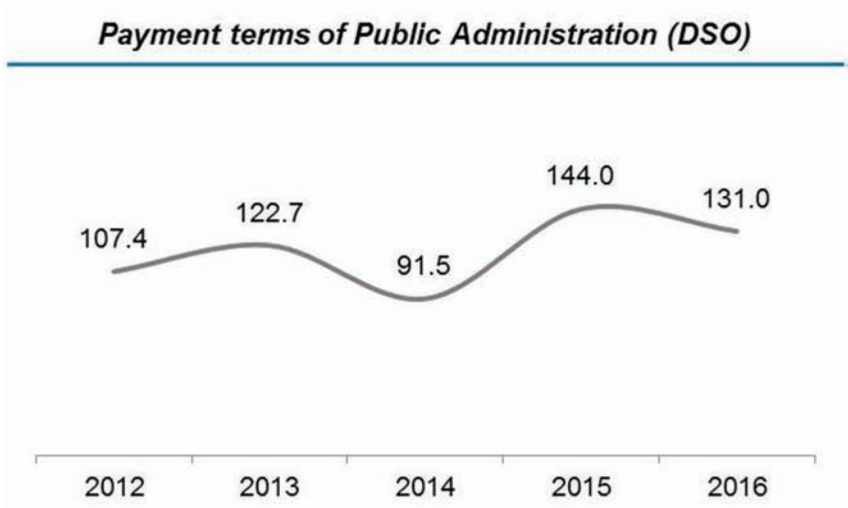
The non-recourse trade payables held by factoring companies amount to approximately €7.7 billion (*Source*: Assifact). At the end of 2014 the trade payables in Italy amounted to over €52.4 billion, representing 3.3% of the GDP (decreasing in 2015 to €49 billion, representing 3% of the GDP): the highest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

During 2014 the government measures significantly decreased the stock of unpaid invoices and of overdue receivables compared to 2013. The measures reduced the number of overdue invoices to 32.4% as of December 2014 from 56.3% as of December 2013. In 2015, a trend reversal occurred as 66.9% of the invoices were overdue as of September 2015, returning to the maximum amount registered in 2013 and with an average payment time of approximately 116 days.

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

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

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

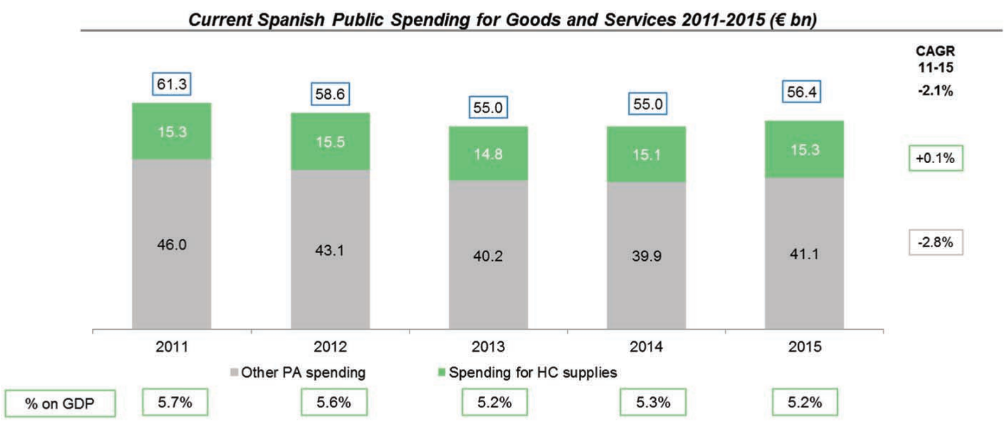


Source: Cerved; Intrum Justitia

Spain

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

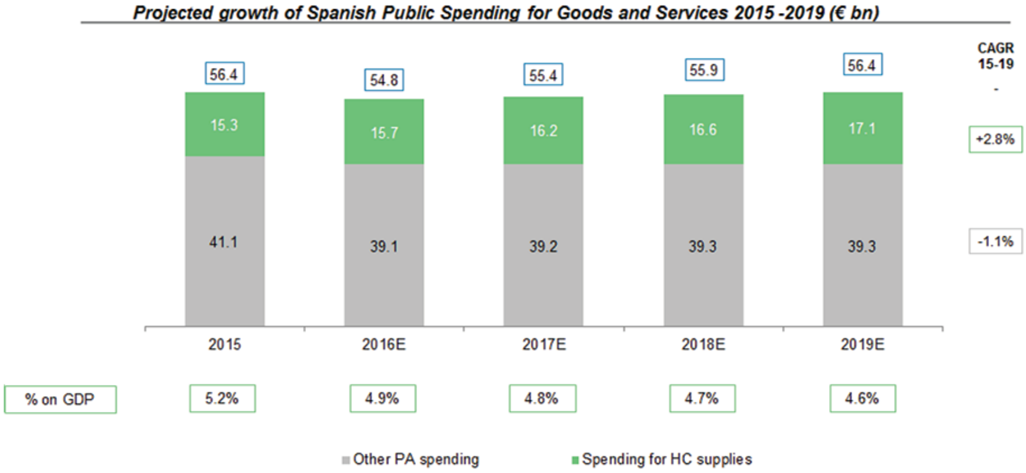
The public spending for goods and services incurred by the Spanish national healthcare system amounted to €15.3 billion in 2015 (27% of total expenses for intermediate consumption) with a consistently upward trend during the five-year interval from 2011 through 2015 (0.1% CAGR) (*Source*: *Ministerio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



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

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

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



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

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

- *The Payment Plan* (*Plan de Pago*): a plan addressed to the CCAA and local administrations, developed from 2012 to February 2014, consisting in the injection of €41.8 billion of liquidity into the system and a procedure for processing payments directly to the suppliers.
- *The Autonomous Liquidity Fund* (*Fondo de Liquidez Autonómico*) ("**FLA**") which, since 2015, is a primary financing fund for the CCAA together with the Financial Facility Fund (*Fondo de Facilidad Financiera*) ("**FFF**") and the Social Fund (*Fondo Social*) (the "**Social Fund**"). Payments are made directly to the suppliers on a monthly basis. The total amount of FLA funds from 2012 to 2015 amounted to €85.6 billion, €100 billion including the funds allocated to the FFF and the Social Fund in 2016. In the first three months of 2016, an additional €6.9 billion was allocated by the *Comunidad*, of which €5.8 billion have gone to the FLA. A further liquidity injection equal to €6.6 billion occurred in the second trimester of 2016 in relation to the FLA, of which €3.8 billion went to paying suppliers.

Following the adoption of such measures, the official DSO was significantly reduced, dropping to 91 days at the end of 2016 compared to approximately 160 days in previous years (100 days in 2015) before the full implementation of the extraordinary reform measures passed by the Ministry of Finance had occurred. In relation to the Healthcare sector, the official DSO was 148 days. (*Source: ATA-Federación Nacional de Asociaciones de Trabajadores Autónomos*). Following the liquidity injections from the Spanish government, DSO further decreased to 72 days as of December 2016 (*Source: ATA-Federación Nacional de Asociaciones de Trabajadores Autónomos*).

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

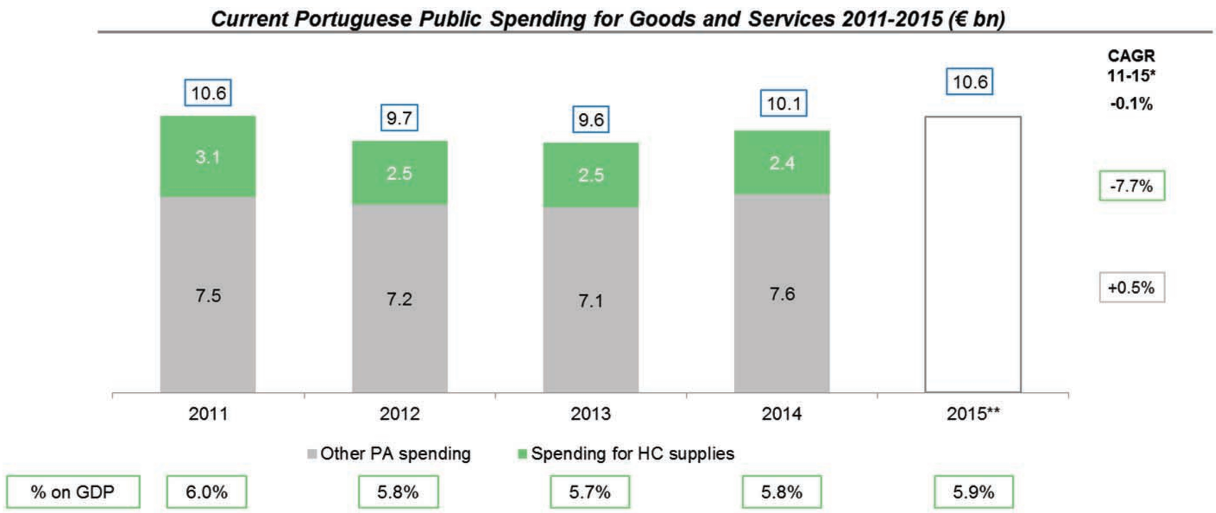
Portugal

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

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

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

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



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

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

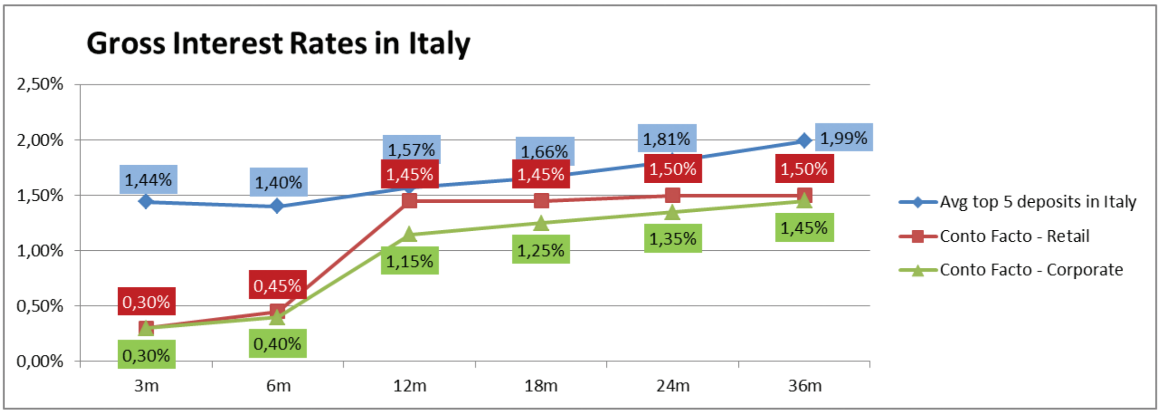
"*Conto/Cuenta Facto*" and online collection market

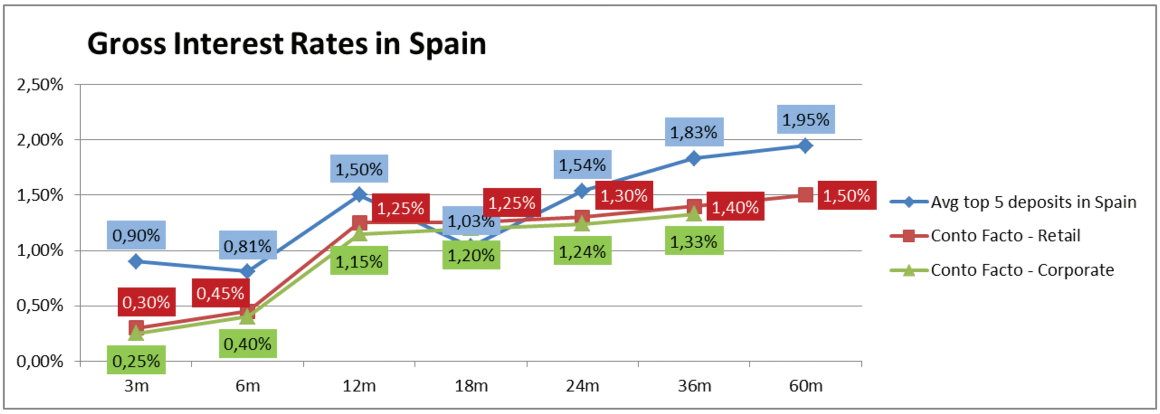
In September 2014, in order to secure new sources of funding, the Company launched an online term deposit account in the Italian market, "*Conto Facto*", mainly targeted at retail customers and businesses. In May 2015, *Conto Facto Plus* was added to the range of offered services. In August 2015, the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

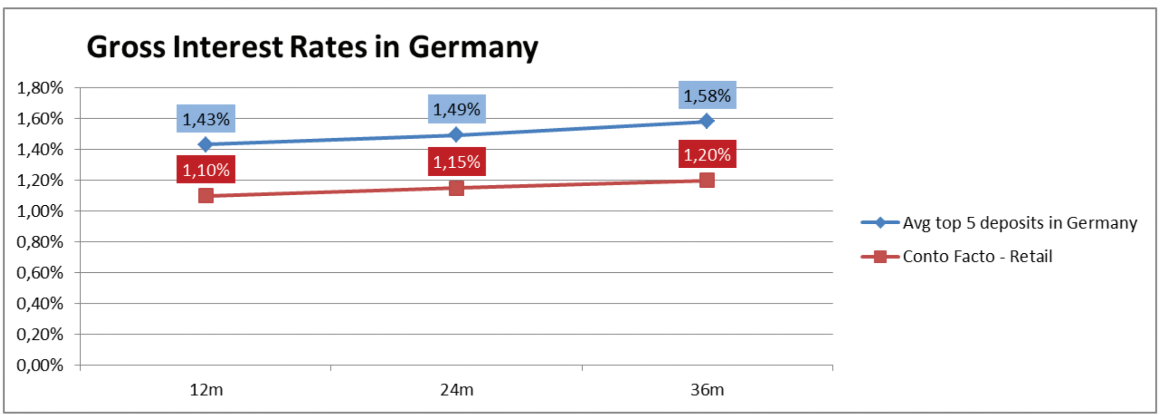
In June 2016, the Spanish branch of Banca Farmafactoring, operating under the freedom to provide services, launched similar online term deposit accounts also in Germany through the online platform *Weltsparen.de*. The terms of the online deposits offered to customers in Germany are limited to 12 months,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

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

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







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

Competition

Overview of Competition in Italy

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

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

Three homogeneous categories of operators can be distinguished:

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

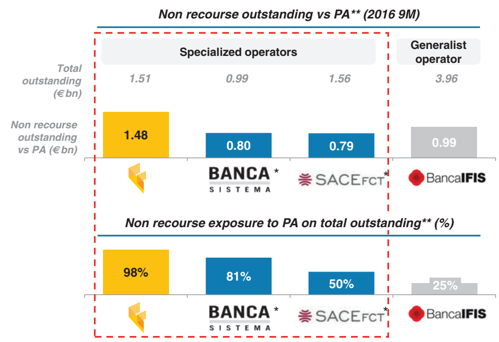
• Independent operators (*e.g.,* Banca Farmafactoring, Banca Sistema, Banca IFIS).

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

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

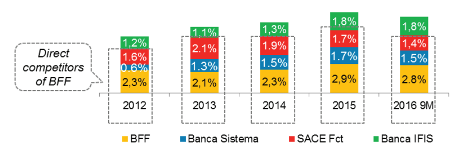
Among generalist independent operators (*i.e.* with more diversified operations in terms of products, services and markets served), Banca IFIS is a listed factoring company operating in the segment of receivables from the Italian national healthcare system and presenting a mix of volumes not dissimilar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

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



Specialized players market share (% non recourse PA outstanding on total Assifact outstanding)**

Non recourse PA outstand.	2012	2013	2014	2015	20169M
BFF	**€1.31bn**	**€1.17bn**	**€1.26bn**	**€1.68bn**	**€1.48mld**
SACE Fct*	€0.90bn	€1.17bn	€1.08bn	€0.96bn	€0.79mld
Banca Sistema*	€0.35bn	€0.72bn	€0.82bn	€0.96bn	€0.80mld
Banca IFIS	€0.68bn	€0.60bn	€0.74bn	€1.03bn	€0.99mld



*for SACE and Banca Sistema values also include recourse outstanding; for SACE the share of "exposure to PA" (equal to 50%) in the 9M2016 refers to December 2015
**Public sector owned companies excluded

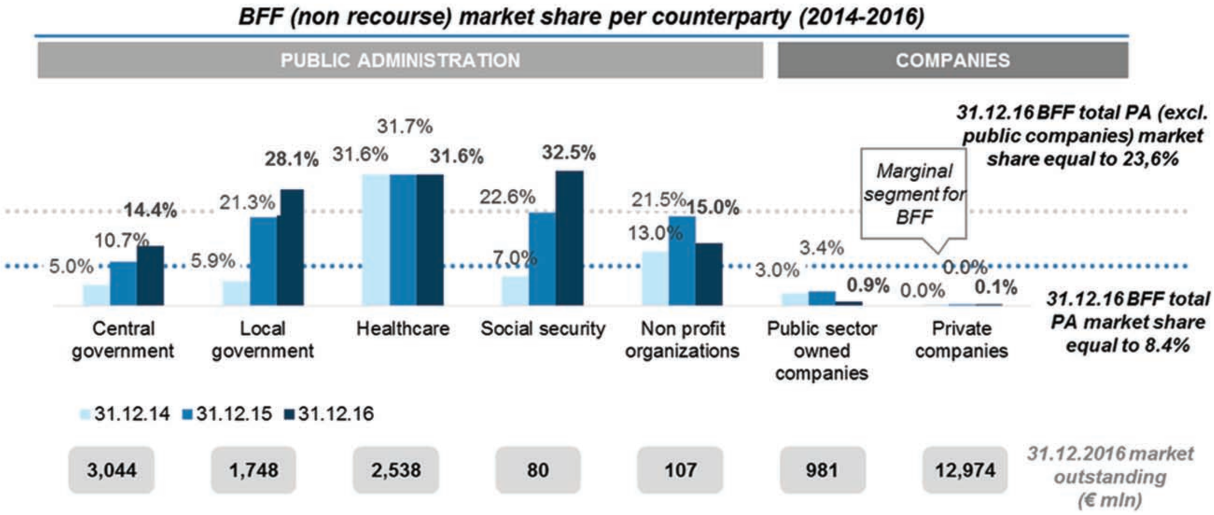
Source: Assifact, Companies' Annual Reports and company internal data

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

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

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

Overall, our exposure to local governments (including the Italian national healthcare system bodies), amounted to €1,260 million as of December 31, 2016, representing 70% of the total outstanding receivables.



Source: Assifact and company internal data

Among our most direct competitors, in recent years SACE Fct reduced its share in terms of stock of receivables held towards the public administration (from 2.1% in 2013 to 1.4% as of September 2016), having focused on its business in the private sector (more than 50% of the turnover generated in 2015), while Banca Sistema, which entered the market in 2011, reached a market share of 1.5% (decreasing from 1.7% as of December 2015).

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

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

Overview of Competition in Spain

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

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

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

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

Overview of Competition in Portugal

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

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

Magellan's relevant market and competitive position

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

Financial services market for healthcare and local bodies

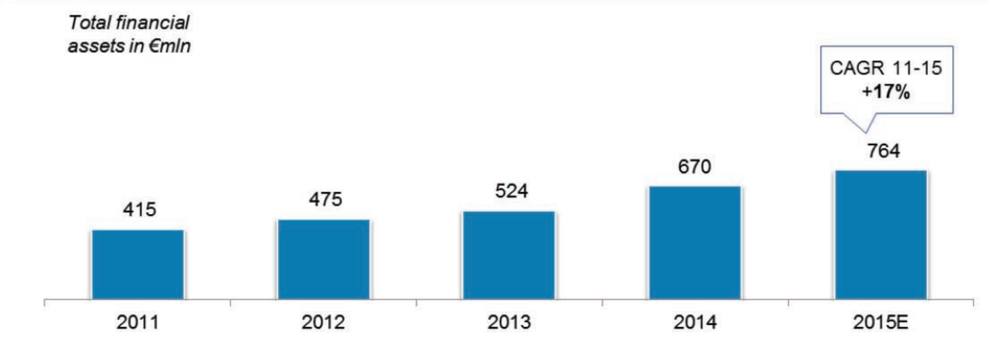
Magellan is considered a player in the alternative financing market ("**Alternative Financing Market**"), a market defined by analysis made by PwC, also known as the financial services market based on non-banking operators. The Alternative Financing Market is composed of funding granted to healthcare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

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

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

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

Polish Alternative financing market vs Hospitals (2011 – 2015)



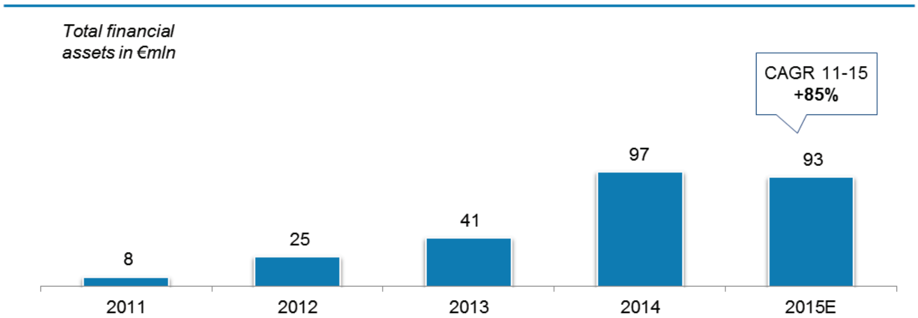
Source: PwC analysis on companies' Annual Reports

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

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

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

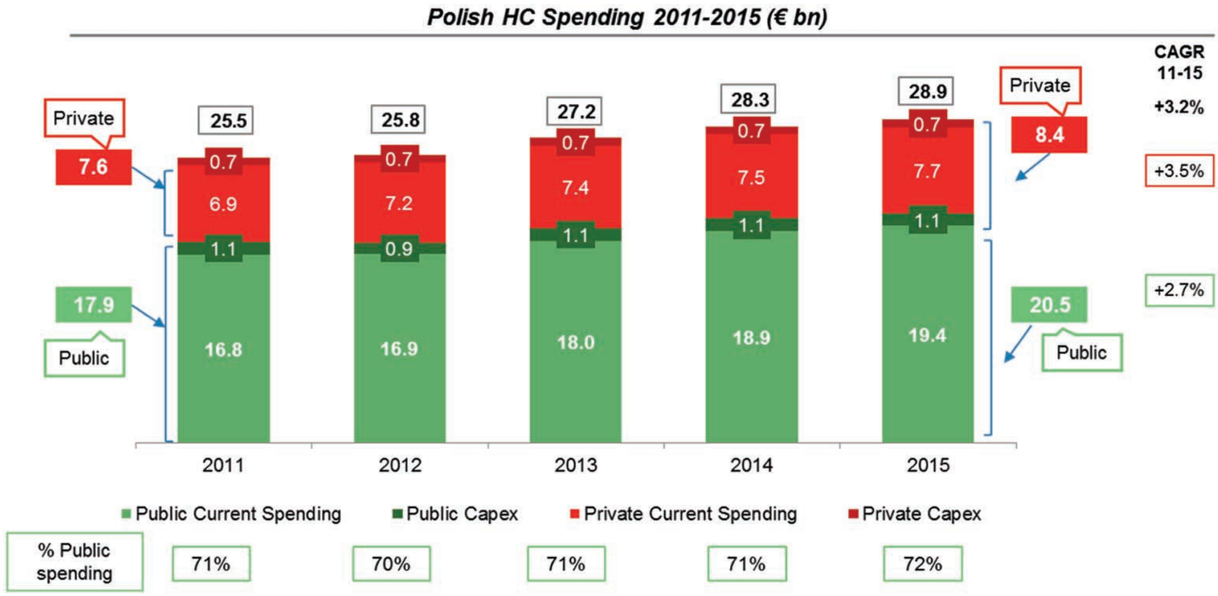
Polish Alternative financing market vs local governments (2011 – 2015)



Source: PwC analysis on companies' Annual Reports

Spending of healthcare and of public local government bodies

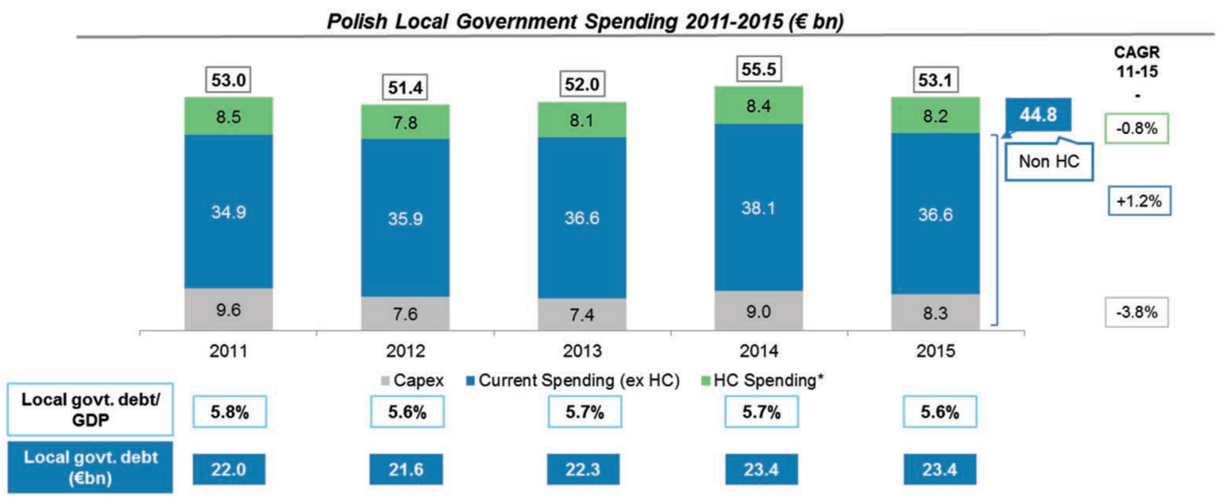
In 2015 Polish healthcare spending increased to approximately €28.9 billion, compared to 2011 (€25.5 billion, CAGR 3.2%). The public component of public healthcare represents 72% of the total, even if private spending is expected to guide the growth trend in the next five years. (*Source: NHF; Ministry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



Source: OECD

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

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



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

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

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

Magellan competitive positioning

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

Overview of credit quality indicators

The following table shows the comparison of our credit quality indicators and average system data as of December 31, 2016, 2015, and 2014, for the "minor banks" category, which was the size category in which we were included at that date. Since June 30, 2016, the Bank of Italy has changed the definitions for the categories into which Italian banks are subdivided with the document 'Financial Stability Report no. 2—2016', from which the average data for the banking system is drawn, with reference to June 30, 2016. As of December 31, 2016, we have been classified as a "less significant bank".

	As of December 31,					
	2016		2015		2014	
	Group	Average system data (minor banks)(1)	Group	Average system data (minor banks)(1)	Group	Average system data (minor banks)(1)
	(in percentage)					
Credit quality indicators						
Gross impaired loans / Gross loans	3.2%	n.a.	3.1%	18.7%	1.9%	16.8%
coverage ratio of impaired loans	22.7%	n.a.	25.2%	40.8%	56.8%	36.5%
Gross NPLs / Gross loans	1.2%	n.a.	0.9%	10.5%	1.3%	8.6%
Coverage ratio of non-performing loans	59.8%	n.a.	85.9%	55.3%	85.1%	52.1%
Unlikely to pay loans / Gross loans	0.1%	n.a.	0.0%	8.3%(2)	0.0%	7.2%(4)
Coverage ratio of unlikely to pay loans	—	n.a.	—	22.5%	—	19.8%
Gross past due loans / Gross loans	1.8%	n.a.	2.2%	n.d.(3)	0.6%	0.9%(4)
Coverage ratio of past due loans	0.2%	n.a.	0.2%	n.d.(3)	0.2%	5.9%

(1) Source: Bank of Italy—"Financial Stability Report No. 2—2016""; Financial Stability Report No. 1—2016; Financial Stability Report No.1—2015; Financial Stability Report No.1—2014 for the data as of December 31, 2015 and 2014 respectively. The figures are gross of the corresponding write-downs. The coverage ratio is given by the amount of value adjustments in relation to the corresponding gross exposure. The category "minor banks" includes banks belonging to groups or independent with total assets of less than € 3.6 billion. The category "small banks" includes banks belonging to groups or independent with total assets between € 3.6 billion and € 21.5 billion. The category "less significant banks", introduced with the "Financial Stability Report No. 2—2016, includes the banks supervised by the Bank of Italy in close cooperation with the ECB. No information provided in this column as we are a "less significant bank" as of December 31, 2016.

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

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

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

BUSINESS

Certain industry and market data set forth in this section is sourced directly from third party sources. We have indicated in the text the information and data that is derived directly from third party sources. Other information has been prepared by management on the basis of third party data. See "Risk Factors" and "Industry and Market Data" for further discussion of our third party sources.

Overview

We are specialized in the management, collection and non-recourse factoring of receivables to suppliers of, primarily, the entities of the national healthcare systems and other public administration entities in Italy, Spain and Portugal (jointly the "**Southern European Market**"), directly operated by the Company, and by our subsidiary Farmafactoring España ("**Farmafactoring España**"). Our Traditional Activities consist of: (i) credit collection management ("**Credit Collection Management**") and (ii) non-recourse factoring ("**Non-Recourse Factoring**") in Italy, Spain and Portugal. Following the Magellan Acquisition in June 2016, we also offer a wide range of financial services (including non-recourse factoring) to the public and healthcare sectors in Poland, Slovakia and the Czech Republic (jointly the "**Eastern European Market**").

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

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

We have been operating in the Italian market since 1985, which is our primary market (approximately 75% of customer loans, generating 85% of our net interest margin for the year ended December 31, 2016). We are one of the leading operators in the Italian factoring market for factoring of receivables towards the public administration with a market share in Italy of 23.6% as of December 31, 2016 (*Source*: *Company analysis on internal data*). In over thirty years of activity, we have become an important business partner for suppliers of the national healthcare system (including pharmaceutical, diagnostics and biomedical sectors) and the public administrations offering working capital solutions to address public payment delays in Italy. We have established and developed relationships with the largest debtors and creditors in the healthcare sector and more recently in the public administration,, through which we have acquired an extensive knowledge of the market and have established full geographical coverage in Italy.

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

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

As part of our Non-Recourse Factoring business in Italy, Spain and Portugal, we purchase the principal amount and interest component (including late payment interest and ancillary income) of receivables mainly owed to Suppliers and we manage their collection on our behalf. The receivables we acquire are generally overdue and bear late payment interest, the amount of which is regulated by European Union law. Our income in this segment derives primarily from: (i) maturity commission and (ii) late payment interest. In 2015 we also expanded our Non-Recourse Factoring business to receivables due from the Italian tax authorities. For the year ended December 31, 2016, we purchased €3.002 million in new receivables (€2.606 million of which were in Italy, €346 million in Spain and €51 million in Portugal), collected on €2.995 million (€2.564 million of which was in Italy, €391 million in Spain, and less than €40 million in Portugal) and have €2.017 million outstanding under management in our Non-Recourse Factoring business.

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

In March 2016, we filed with the Bank of Italy an application to offer banking services in Germany and having received no objection from them in this regard, in June 2016, we launched the collection of savings in Germany through the online platform *Weltsparen.de*, using our Spanish branch under the freedom to provide services. On the German market, we provide the "*Cuenta Facto*" online term deposit account service, which allows German customers to access term deposit accounts offered by foreign banks not established in Germany.

On May 27, 2016 the tender offer in respect of all the share capital of Magellan was finalized and on June 30, 2016 we completed the acquisition, through the vehicle Mediona, of the entire share capital of Magellan, the parent company of a group operating in Poland, Slovakia and the Czech Republic (and, at that time, to a marginal extent, through a branch of Magellan, in Spain) in the alternative financing market ("**AFM**"). Magellan offers a diversified range of financial services (including non-recourse and with recourse factoring), aimed at guaranteeing access to short-term funding for suppliers of the healthcare sector and local authorities, as well as providing funding for parties operating in the healthcare and public authority sectors. Through the Magellan Acquisition and its subsidiaries, the group significantly increased its size, extending its activities to the Eastern European Market and at the same time diversifying the range of financial services offered. (as of December 31, 2016 Poland represents approximately 14% of total customer loans, while the rest of the Eastern European Market represents approximately 3%). See "*—Subsidiaries—Magellan Acquisition*".

For the year ended December 31, 2016, following the Magellan Acquisition (which was consolidated into our Group starting from the end of the Magellan Acquisition for the following seven months) and not adjusting for the one-off extraordinary costs, we recorded a net profit of €72.1 million, compared with €68.8 million for the same period of the previous financial year, which did not include the Magellan Group. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors affecting our business—Magellan Acquisition*". Not taking the Magellan Group into consideration, the net profit of Banca Farmafactoring and Farmafactoring España, for the year ended December 31, 2016, would have been €69.2 million, with an increase of €0.4 million compared with December 31, 2015.

We remain in compliance with the various capital requirements regulatory indicators imposed on us as a bank. The Banking Group's own funds, also including the Magellan Group, as of December 31, 2016, stood at €235.3 million and our Group's overall exposure to risks was considered adequate for our actual risk profile and capital resources available. With reference to the Banking Group, the supervisory capital coefficients, CET1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio, stand, respectively, at 16.7%, 16.7% and 16.7%, (excluding the profit for the period from capital). Our Group's overall exposure to risks is compliant with the applicable legal framework.

In addition, as part of our strategy to consider organic expansion in other markets similar to those where we already operate, we are also considering starting operating in Greece in the near future. In February 2017, we filed with the Bank of Italy an application to offer factoring services in Greece under the freedom to provide services and we expect that we shall receive the relevant authorization by the first half of 2017. See "*—Recent Developments—Expansion of our business in Greece*".

Our Key Competitive Strengths

We believe that our competitive strengths are represented by the following key factors:

Operating in large markets with attractive opportunities for growth and a highly stable regulatory framework

The Southern European Market in which we operate and in which we have historically been active for our Traditional Activities is highly stable despite the austerity measures adopted by the government of the three countries in relation to public expenditure. In these markets the public administration's expenditure on goods and services, which generates the credits that we manage and / or purchase, was equal to €133 billion in Italy (approximately 8.1% of GDP), €56 billion in Spain (5.2% of GDP) and €11 billion in Portugal (5.9% of GDP), for a total of approximately €200 billion in 2015 (*Source*: for Italy the Ministry of Economy and Finance, for Spain the Ministerio de Hacienda y Administraciones Públicas e Actualización del Programa de Estabilidad 2016-2019-Reino De España, and for Portugal the Instituto Nacional de Estatistica Portugal) and is expected to remain stable in the foreseeable future.

The Southern European Market presents limited factoring penetration (i.e. factoring turnover in the public administration divided by total public administration current expenditure for goods and services) versus public expenditure, thus offering scope to specialized players to expand their activity by: (i) developing new business with potential customers which do not currently use factoring, and (ii) by managing and/or purchasing greater volumes of receivables from existing customers. (*Source*: Assifact, DEF 2015 and company accounts for Italy; AEF and "*Actualizacion del Programa de Estabilidad 2015—2018*" for Spain; the expansion is calculated as non-recourse turnover from the public administration / public spending on goods and services).

Similarly the Eastern European Market in which we operate (Poland, Slovakia and the Czech Republic) is characterized by high historical growth rates in public expenditures and positive future prospects as well as a limited penetration of the AFM. Poland, which represents Magellan's main market, in the last four years recorded an average growth rate of approximately 3% in respect of healthcare expenditure (€29 billion in 2015, equal to approximately 7% of the GDP) and almost stable in respect of local authorities (€53 billion in 2015, equal to approximately 12% of the GDP). The growth in healthcare expenditure (aimed at filling the current gap with more developed economies), the demographic trend characterized by a steady increase in the average age of the population and any current and future regulatory changes could contribute to the expansion of these markets in the forthcoming years.

Historically, the countries in which we operate have endemic delays in payments towards public administration suppliers, due to, among other factors, (i) a mismatch between centralized tax collection and decentralized public spending allocation, (ii) administrative complexity and (iii) commercial debt not classified as public debt which allows financial flexibility to governments.

Since 2000, the public administration receivables sector has been regulated by a stable and harmonized regulatory framework at the European level (Directive 2000/35/EC) through the introduction of the European regulation on combatting late payment in commercial transactions between companies or between companies and public administrations, ensuring uniformity and certainty by establishing principles and methods for the calculation of the maximum terms for supplier payment permitted for the public sector and late payment interest. Such regulatory framework was integrated in 2011(through Directive 2011/7/EU). As of the date of this Offering Circular, the statutory interest rate is equal to 8% above the ECB's reference rate or, for EU countries which are not part of the Eurozone, the central bank of the relevant country. See "*Supervision and Regulation*". We believe that such EU regulatory framework helps strengthen our business by creating visibility on some of the key variables which impact our business model.

Leadership in factoring of receivables from public administration in Italy, Spain, Portugal and alternative healthcare financing market in Poland

In Italy we hold a leading position amongst specialized factoring market players (with a market share of approximately 23.6% as of December 31, 2016 in respect of the stock of non-recourse receivables towards the public administration, while, in Spain, we are the leader among the independent factors in the context of the purchase of receivables from Suppliers and among the top six factoring market players in relation to our total purchased volumes of non-recourse receivables towards the public administration and, in Portugal, we are the leader among the independent factors in the context of the purchase of receivables from suppliers of the national healthcare system (*Sources*: Assifact, AEF, Factor Chain International and Company estimates as of December 31, 2016).

Following the Magellan Acquisition, we are market leader in financial services for healthcare entities in Poland where we are also active in the sector of alternative financing solutions for hospitals, which in the past three years recorded a significant growth and where we believe we are best positioned to take advantage of the future expected growth being also one of the few specialized alternative financing players (*Source:* market analysis conducted by PwC in Poland). Furthermore, Magellan is one of the key players amongst nonbank financial institutions providing financial services to hospitals and to the healthcare sector in Slovakia, where it has replicated its business model and established consolidated relationships with 36 healthcare facilities, which represent approximately 50% of the healthcare facilities present in the country.

Long standing relationship with high-profile clients generating significant amount of recurring business

We benefit from having over thirty years of experience in Italy and being able to offer a broad range of services in the markets in which we operate, as well as from having an efficient platform which is integrated with the platforms of our key clients. This allows us to position as a partner in the management and disposal of receivables due from the public sector. Similarly, in Eastern Europe, and especially in Poland, Magellan has long term relationships with clients, who in the healthcare sector include certain multinational groups to whom we already provide services in Italy, Spain and Portugal, and is their reference partner for alternative financing solutions.

In the Southern European Markets, we have well established relationships with our main counterparties, including the main suppliers of the Italian national healthcare system. This is confirmed by our high client retention rates and increasing growth in volumes: as of December 31, 2016, our top 10 clients in the context of our Credit Collection Management business had been our clients for an average of over 18 years and generated approximately 46% of volumes of managed and purchased receivables (equal to €2.7 billion in total). Our top 10 clients in the context of our Non-Recourse Factoring business had been our clients for an average of approximately ten years and generated approximately 40% of volumes of receivables.

Our client retention level represents a solid base upon which we can generate volumes and, at the same time, allows us to benefit from great visibility into our business prospects. In the Southern European Markets, over 80% on average of the volumes generated in the past 10 years relate to clients that, every year between 2013-2016, have guaranteed our business continuity ("**Consolidated Clients**"), also taking into account entities resulting from the consolidation of individual clients and/or clients also operating in Spain and Portugal.

Our client loyalty represents a solid base for our business operations and, at the same time, allows us to benefit from a high visibility of our future business prospects.

Traditionally, in Italy, Spain and Portugal, we have mainly worked for and alongside leading multinational and national suppliers of products and services to the public administrations which, by virtue of the high reliability and quality standards of the services we offer, in many cases outsource all their Credit Collection Management activities to us, thus, in our opinion, creating a significant barrier to the entrance of other competitors. The majority of these clients have extensive experience in their sector and high credit ratings. Moreover, they benefit from higher growth rates on the markets as a result of a wide product portfolio as well as their ability to act as a consolidator in their sectors. In turn, we benefit from the profiles of our client base in terms of business volume and more stable relationships, as well as reduced counterparty risk.

Long track record in dealing with Public entities and deep knowledge of the payment dynamics and strategies

Thanks to our long-term experience in the Italian healthcare segment, we have developed an extensive knowledge of our final debtors and of the Credit Collection Management trends and strategies. We have also established and continue to develop a detailed information database, which enables us to:

- monitor relevant payment trends, particularly DSOs;
- assess and predict the timing for credit collection and credit risk and to determine the pricing of the receivables we purchase; and
- effectively and efficiently manage the entire receivables and late payment interest collection process, and to collect high percentages of late payment interest in short periods of time.

Our advanced and scalable IT proprietary systems developed in-house in more than 30 years of activity represents a key competitive advantage, providing distinctive features of business model and offering a high level of efficiency for customers and debtors, representing, in our opinion, a significant barrier to entry for competitors.

Experienced management team with proven track record of being able to successfully implement a growth strategy

Our management team has significant experience and extensive knowledge of the markets in which we operate. In particular, with respect to the Southern European Market, our management team has, on average, over ten years of experience and an extensive knowledge of Credit Collection Management and Non-Recourse Factoring in Italy. Over time, our management has been able to take advantage of both its experience in executing transactions and its ability to manage growth strategies even in non-traditional areas (such as central administration and public entity segments, and the Portuguese market). Our Eastern European activities are directed by the management team of Magellan, which has been with Magellan for nearly 12 years.

Proven track record of high growth and profitability

Since 2013, in our Traditional Activities we experienced high growth rates in terms of volumes and profitability and, in particular, we recorded an increase in purchased receivables from €2.5 million in 2014 to €3 million in 2016 (with a compound annual growth rate ("**CAGR**") of 9.6%) and in net profit from €57.5 million (normalized) in 2014 to €69.3 million in 2016 (with a CAGR of 9.8%). In addition to the volume growth shown above, the volumes of the Magellan Group assets (consolidated for the year ended 2016) as of December 31, 2016, amounted to approximately €426 million, showing an increase of 7% compared to the previous year.

In the period 2013-2015, total purchased receivables increased by a CAGR of 39%, net of the effects of Split Payment Mechanism in Italy and taking into account an average VAT rate of 15%. As of June 30, 2016, purchased receivables increased by 32.7% to €1,310 million, compared to €987 million recorded as of June 30, 2015.

The significant increase in volumes has been achieved also through a diversification of our activity towards segments with lower risk weighting (e.g. Iberia and other public administration different from the national healthcare system) resulting in a decreasing risk weighted assets ("RWAs") density and higher risk adjusted return.

In the Southern European Markets, we have also significantly increased the number of our clients and debtors over the last three years (from 145 new clients in 2014 to 262 in 2016 and approximately from 1,769 new debtors in 2014 to 6,879 in 2016), reducing the concentration of our client base and increasing the diversification of our portfolio. To support our growth strategy, since 2014 we strengthened our sales organization and started using indirect distribution channels by entering into agreements with other financial institutions (14 banks as of December 31, 2016), brokers, other factors, insurance and reinsurance companies or trade associations, and new distribution agreements with third parties.

The high growth in terms of volumes has also been achieved through the diversification of the Group's activities in areas with a lower risk weighting (Iberia and other areas of public administration other than the national healthcare system) which allowed a reduction in risk weighted assets and, consequently, greater profitability over risk weighted assets.

In order to pursue our growth strategy in the European market both organically (also by taking advantage of cross-selling opportunities with clients operating in the pharmaceutical, diagnostics and biomedical fields) and by way of acquisition in June 2016, we successfully completed the Magellan Acquisition. See "*—Subsidiaries—Magellan Acquisition*". We believe our volume growth trend will benefit from the Magellan Acquisition and that our growth could be further strengthened through the improved funding conditions available to Magellan as a member of our Group.

Solid business model characterized by high margins and strong profitability, an efficient cost structure despite investment to support growth and a strong capital position

Over the past three years, we have recorded high margins with the net interest margins continuously growing thanks to: (i) our leadership position in the markets in which we operate; (ii) our ability to assess and predict the collection time of purchased receivables and collect late payment interest; and (iii) the decrease in our cost of funding. The net interest margin increased from €107.7 million (normalized) in

2014 to €159.2 million in 2016 (with a CAGR of 22%, including Magellan), compared to due from customers which increased from €1,136.6 million as of December 31, 2013 to €2,499.1 million as of December 31, 2016 (with a CAGR of 30%). Through the Magellan Acquisition we accelerated our growth process and strengthened our return on capital invested. As of December 31, 2016, our ratio between net profit of the year and shareholders' equity ("**ROE**") was equal to 27.6% and adjusted ROE (net of the ancillary costs) was equal to 31.9%. Over the last three year we achieved a high double-digit earnings growth with a strong and resilient profitability also through the cycle. Our results have enabled us to implement a generous dividend policy for our shareholders (in the last three years, we have distributed dividends totaling €189 million) and to finance high rates of organic growth without using external capital.

During the period 2013-2015 we have made significant investments, to support our internal future growth and the transformation in bank. The number of our employees increased from 113 at the end of 2013 to 409 at the end of 2016, and in particular we increased our salesforce from three (2013) to eighteen (2016). Although such investments resulted in an increase in our operational costs, we maintained a high operational efficiency principally due to: (i) limited fixed costs incurred compared to income (approximately 20% in 2015) and (ii) a significant variable component, not exceeding the fixed component, of remuneration in respect of our top management linked to certain objectives (if such objectives are not met, the variable component is equal to zero). Our efficient operating structure is shown by a cost/income ratio equal to 40.4% in 2016 (32.0% excluding extraordinary costs).

Our capital ratios are significantly higher than the minimum regulatory requirement and our SREP level, and are among the highest in the European and Italian market. As of December 31, 2016, Banking Group recorded a Common Equity Tier 1 Ratio and a Total Capital Ratio each equal to 16.7% excluding any income generated in the year. The consolidation perimeter for the purposes of the CRR recorded a Common Equity Tier 1 Ratio and a Total Capital Ratio equal to 16.4% and 16.6% respectively. Given business seasonality, year-end figures represent the peak of activity and, consequently, the highest level of capital absorption.

Growing and diversified funding base with decreasing cost of funding and assets characterized by a low complexity and risk profile

We have demonstrated an ability to maintain high quality funding resources in all market cycles, also due to our asset and liability management strategy aimed at ensuring appropriate liquidity levels. Our limited risk profile combined with our high and stable profitability and the strong relationships with the banking systems have allowed us to have continuous access to credit lines. We have also demonstrated our ability to cover funding needs even during the peak of the financial crisis and sovereign debt crisis. We have a conservative liability management approach since our funding source duration is significantly higher than that of the receivables purchased.

After having obtained the banking license in 2013 and implemented certain actions to operate as a bank in the course of 2014 and 2015, we were able to diversify and expand our funding resources, and to significantly reduce, from the second half of 2014, the cost of funding and expand the purchase of receivables in the context of our Non-Recourse Factoring business. More specifically:

- in June 2014, we successfully placed our first senior unsecured bond issue for €300 million with maturity in 2017 and an interest rate of 2.75% and in the last quarter of 2014 we renegotiated our lines of credit; in September 2014, we launched an online term deposit account in Italy, and we collected deposits totaling €418 million as of December 31, 2015 compared to €226 million as of December 31, 2014, an increase of 84.9% also thanks to the launch in August 2015 of a similar product in Spain. As of December 31, 2016 the Group collected in total approximately €822.4 million (an increase of 95.5% as of December 31, 2015); and
- in June 2016, we successfully placed a further senior unsecured bond issue for €150 million with maturity in 2021 and an interest rate of 1.25%.

Our Liquidity Coverage Ratio (an index relating to short term liquidity, i.e. within 30 days) was equal to 391% as of December 31, 2015 and 502% as of December 31, 2016, which was significantly higher than the minimum regulatory requirement, equal to 60% and 70% as of December 31, 2015 and 2016, respectively. We also have a low leverage ratio, which in the years ended December 31, 2014, 2015 and 2016 was equal to 6.1% and 4.9% (5.9% excluding Magellan), respectively.

We believe that our credit portfolio includes high quality assets, consistent with our strict rules governing the purchase and management of receivables. The receivables we acquire have a low credit risk, since our main debtor counterparties are entities of the Italian, Spanish and Portuguese national healthcare systems and public administrations, which have a low insolvency risk. The assignors of our receivables also have a low risk profile being confined to the risk that they may be unable to pay back the purchase price in the event that the assigned receivables turn out to be inexistent or without value and therefore we have the right to recover the principal and interest from them. This risk is very low thanks to the high credit quality of our clients and, for our minor clients in Spain and Portugal, our invoice settlement system which confirms the acknowledgement from the debtors of the receivables before purchase. We believe the low-risk nature of our assets is shown by our low amount of non-performing loans. For the years ended December 31, 2014, 2015 and 2016, our net non-performing loans were equal to 0.2%, 0.1% and (including Magellan) 0.5%, respectively, of factoring assets.

Consistent growth in profits and increasing returns on weighted assets to support a high dividend distribution capability

Over the past three years, we have recorded a consistent growth in profits, thanks to successful initiatives (such as the consolidation of our expansion into Spain and diversification in the non-healthcare public administration sector) which were supported by the extension of our funding resources and the reduction in the cost of funding. Despite the investments we have made in infrastructure and operating costs, we have maintained an efficient cost structure, with a particularly low cost income ratio (approximately 30% adjusted), thus limiting the initial adverse impact of such initiatives on our profits.

Our business model and our capacity to replicate it are reflected in our financial results which, despite the adverse macroeconomic conditions in Europe and Italy, have demonstrated that our business has a robust capacity to generate profits (amounting to €72 million in 2016, €69 million in 2015, €57 million in 2014 (normalized to take into account the change in the late payment interests calculation estimate)), even in adverse market conditions. Our ability to generate increasing profits, combined with greater efficiency in the use of capital in segments characterized by reduced risk-weighting (such as the non-healthcare public administration sector and the Spanish market), has allowed us to increase our returns on risk-weighted assets, which decreased from approximately 24.1% in 2014 to approximately 13.2% in 2016 (calculated as the ratio between total profits and average risk-weighted assets for the relevant period).

The positive results which we have achieved in terms of profitability have given us great flexibility which, together with our robust capital position (CET1 equal to 16.7% as of December 31, 2016 in relation to the Banking Group) and our ability to use our capital efficiently, has enabled us to implement a generous dividend policy for our shareholders (in the last three years, we have distributed dividends totaling €189 million, including the profits of the year 2016 which are still to be distributed as of the date of this Offering Circular) and to finance high rates of organic growth without using external capital.

Our Business Strategies

We seek to operate our business by implementing the following strategies:

Consolidation of our position of leadership amongst suppliers to the healthcare sector in Italy and further expansion of our business towards public administrations and private entities operating in the Italian healthcare sector

We intend to increase our market share that we hold in Italy in the Credit Collection Management and Non-Recourse Factoring business towards the healthcare sector, as well as to: (i) consolidate our position of leadership amongst specialized suppliers to the healthcare sector by increasing client loyalty and further improving and customizing services we offer; (ii) maintain a central role in providing specialized services in the management and sale of receivables for large customers; (iii) capitalize on our strong market position and the experience we have acquired in the management of receivables due to suppliers of the Italian national healthcare system, expanding our activities towards public administrations and private entities (including religious organizations) operating in the healthcare sector; (iv) increase the diversification of our client base and the type of receivables purchased, also expanding our activities concerning the purchase of tax receivables; and (v) continue to invest in the technological infrastructure of our IT systems, which represents a competitive advantage in the traditional markets of our business.

Further growth in non-Italian markets

We intend to pursue growth opportunities in markets outside of Italy, by identifying markets which have similar characteristics (particularly with respect to the regulatory and legislative framework) to Italy, as we have done in Spain and Portugal. We seek to expand our presence in Spain and Portugal, which we have developed organically, as well as seek out strategic acquisitions.

In Spain and Portugal, we seek to take advantage of our experience and cross-selling opportunities deriving from our multinational client base. Our aim, especially in the segment relating to receivables due from national healthcare systems, is to manage volumes of receivables consistent with those in Italy, and to continue to increase our business with the public administration in Spain (including publicly owned companies) and to generate new business with the public administration in Portugal.

With respect to other European markets, we successfully acquired Magellan, one of the leading operators in the field of financial services for the healthcare industry and local public administrations in Poland, the Czech Republic and Slovakia, operating also through a branch established in Spain. See "*—Subsidiaries—Magellan Acquisition*". We believe we could successfully replicate, organically or through bolt-on acquisitions, our model in other European Union markets. In addition, as part of our strategy to consider organic expansion in other markets similar to those where we already operate, we are also considering starting operating in Greece in the near future. In February 2017, we filed with the Bank of Italy an application to offer factoring services in Greece under the freedom to provide services and we expect that we shall receive the relevant authorization by the first half of 2017. See "*—Recent Developments—Expansion of our business in Greece*".

Maintenance of high quality assets, strong capital position and high level of dividend distribution

We intend to maintain high capital ratios in order to cover the risk relating to our activities in Italy and Spain and to support the growth strategies described above. In particular, we intend to keep our Total Capital Ratio at or above 15% and to continue to undertake a conservative risk management and maintain high quality assets. This has also allowed us to maintain a high level of dividend distribution to our shareholders, which we have been able to do in the past due to our high capacity to generate profits regardless of the difficulties arising from unfavorable contexts at a macroeconomic level.

Constant optimization of our funding resources in terms of cost, availability and diversification

We intend to continue to improve our funding structure to support our Non-Recourse Factoring business through the diversification of our funding resources, the reduction in costs and the increase in volumes. We intend to increase the online collection of deposits from retail and corporate clients by strengthening such activities even in new markets (as we did in September 2014 with the launch of Conto Facto in Italy, in August 2015 with the launch of Cuenta Facto in Spain through our Spanish branch and in June 2016 with the launch of the online collection of deposits from German clients through our Spanish branch). Following our second bond issuance in June 2016, we also intend to continue to raise funding in the debt capital markets and through ECB funding and other interbank channels to which we have access as a result of obtaining a banking license. The increased availability of funding and the reduction in the cost of funding are instrumental in achieving the growth strategies outlined above and represent an innovative feature for our traditional business model. See "*—Description of Our Business Activities by Service Segments—Collection of online term deposits ("Conto Facto" and "Cuenta Facto")*".

Expansion and diversification of distribution channels

We intend to continue our strategy developed over the last few years of diversifying and expanding our distribution channels in Italy and Spain, which is aimed at acquiring new clients by strengthening our direct sales network and collaborating with other financial intermediaries, insurers, reinsurers and/or brokers. We believe that by having a greater diversification of distribution channels, we may be able to reach out to a broader set of counterparties to in turn diversify our own portfolio.

Key Performance Indicators

The following table reflects certain key performance indicator information of the Group. The KPI's given for the stated period reflect the positive trend in the Group's operations and profitability.

	As of and for the year ended December 31,			
	2016(*)	2015	2014	2014 normalized
	(in € thousands, except percentages)			
Economic, operating and financial indicators				
EBTDA	106,069	100,463	189,071	88,576
ROE *adjusted* (%)	31.9%	27.5%	47.4%	21.9%
ROTE *adjusted* (%)	35.4%	27.8%	67.5%	31.2%
RoRWA	13.2%	14.1%	24.1%	13.0%
Cost/income ratio adjusted (%)	32.0%	30.0%	17.3%	32.1%
Total volumes	5,879,185	6,286,414	5,450,721	n.a.
Operating income / average due from customers (%)	7.4%	8.1%	16.2%	8.7%

(*) Normalized data is not applicable to the year ended December 31, 2016.

The key performance indicators for the financial year ended December 31, 2016 reflect the positive trend in the Group's profit from operations.

In particular, ROE *adjusted* went from 27.5% as of December 31, 2015 to 31.9% as of December 31, 2016, primarily due to the rise in the Group's profit for the year, which was a result of the increase in interest margins following the expansion of the Group's business.

ROTE *adjusted* went from 27.8% as of December 31, 2015 to 35.4% as of December 31, 2016 (37.1% including Magellan for 12 months), primarily due to the increase in the Group's profit for the year.

Operating income/average due from customers decreased from 8.1% as of December 31, 2015 to 7.4% as of December 31, 2016, due to the decrease in purchased receivables over the course of 2016 as a result of efforts to reduce their risk profile, a fact shown by the lower ratio of average RWA to average assets for the Company.

The RoRWA increased from 13.0% (normalized) as of December 31, 2014 to 14.1% as of December 31, 2015 due to the combined effect of the Group's increased profitability and the growth of their non-recourse factoring operations, which entailed minor capital absorptions over the period. As of December 31, 2016 RoRWA was registered at 13.2%. The cost/income ratio *adjusted* for the year ended December 31, 2016 was 32.0%, which is substantially in line with the rate for previous years (30.0% for the year ended December 31, 2015 and 32.1%, normalized, for the year ended December 31, 2014). The general trend of these indicators over the past three years reflects (i) the positive increase of the Group's interest margins due to an increase in interest income over the past three years following the business expansion, and (ii) the increase of administrative costs mainly related to the increase of personnel costs and the investment in our infrastructure due to the expansion of the Group's workforce within the context of the Group's development.

Our History and Development

History

First Developments

The Company was incorporated on July 22, 1985 under the name of "*Farmafactoring S.p.A.*", by Confarma S.p.A. ("**Confarma**") (a consortium of pharmaceutical companies with an initial holding of 60% of our shares). B.N.L. Holding S.p.A. ("**BNL**"), which owned 30% of our shares, and International Factors Italia S.p.A. ("**Ifitalia**"), which owned 10% of our shares, in order to manage and collect the receivables due from the Italian national healthcare system to pharmaceutical companies.

In 1990, we started to carry out non-recourse factoring services alongside the management and collection of receivables. In 1992, we began operating as an authorized financial intermediary and were included in the special register of the Bank of Italy and in 1994 we were also registered in the general list of the Bank of Italy.

In 2004, we founded the Farmafactoring Foundation with the aim of improving the public knowledge of socioeconomic and financial issues in relation to social welfare, with a particular focus on the healthcare system.

In December 2006 and January 2007 the private equity fund Apax Europe VI, managed by Apax Partners, purchased a controlling stake in Confarma and the remaining stakes in our share capital held by other minority shareholders and became our indirect controlling shareholder through a newly incorporated company, FF Holding S.p.A. ("**FFH**"), controlled by Farma Holding S.à r.l. ("**Farma Holding**"). Before the acquisition Confarma held 60% of our shares and the minority shareholders were Ifitalia, Finanziaria Banca Agricola Mantovana S.p.A. and Banca di Roma S.p.A., respectively holding stakes of 19%, 11% and 10%.

On December 10, 2009, we incorporated, and became the sole shareholder of, Farmafactoring España S.L., which offers factoring of healthcare receivables in the Spanish market. In 2011 Farmafactoring España S.L. completed the first purchase of receivables and in July of the same year was transformed into Farmafactoring España S.A.

On January 2, 2013, we were authorized by the Bank of Italy to carry on banking activities. Shortly thereafter, on July 3, 2013, we changed our corporate purpose and changed name to Banca Farmafactoring S.p.A. and were registered as Banca Farmafactoring in the register of banks (*albo delle banche*) held by the Bank of Italy, as well as in the register of banking groups (*registro dei gruppi bancari*) as parent company of the Banking Group and we became a bank. At the same time, on July 2, 2013, we were removed from the list of financial intermediaries held by the Bank of Italy.

In 2014, we started to provide factoring services in Portugal where our business is carried out under the freedom to provide services (following the filing of an application with the Bank of Italy, which on April 23, 2014 confirmed to have no objections in this respect).

In September 2014, we launched our "*Conto Facto*" online term deposit account service in Italy. This was the first retail product created to diversify our sources of financing used for the purchase of receivables within our Non-Recourse Factoring business and to minimize overall funding costs. On November 3, 2014, we applied to the Bank of Italy for the authorization to open a branch in Spain under freedom of establishment, in order to introduce an online deposit called "*Cuenta Facto*" also in the Spanish market, following the model of the "*Conto Facto*" online term deposit account in Italy.

In March 2016, we informed the Bank of Italy of our intention to offer banking services in Germany and having received no objection from them in this regard, in June 2016, we launched the collection of savings in Germany through the online platform *Weltsparen.de*, using our Spanish branch under the freedom to provide services. On the German market, we provide the "*Cuenta Facto*" online term deposit account service, which allows German customers to access term deposit accounts offered by foreign banks not established in Germany. As of December 31, 2016, the collection of "*Conto Facto*", "*Conto Facto Plus*" and "*Cuenta Facto*", jointly with the abovementioned German service, amounted to €822.4 million compared to €416.7 million as of December 2015.

In addition, in line with our organic group strategy, we are also considering to start operating in Greece in the near future, subject to the completion of the passporting procedure provided under the CRD IV and related implementing provisions and provided that no objections are raised by competent authorities in this respect. In February 2017, we submitted our first filing with the Bank of Italy to offer factoring services in Greece under the freedom to provide services and we expect that we shall receive the relevant authorization by the first half of 2017. See *"—Recent Developments—Expansion of our business in Greece*".

Group corporate reorganization

Effective October 14, 2014 (with accounting effects as of January 2015), FFH was merged into us and, as a result of the merger, the shareholders of FFH became our shareholders.

Therefore, our ownership structure was as follows: (i) Farma Holding S.à r.l. (88.3471%), (ii) Bracco S.p.A. (3.2758%), (iii) Merck Serono S.p.A. (2.5862%), (iv) L. Molteni & C. dei Fratelli Alitti Società di Esercizio S.p.A. (1.2069%), (v) Mediolanum Farmaceutici S.p.A. (1.2069%), and (vi) a group of our managers and former managers as minority shareholders (in aggregate 3.3771%).

In April 2015, the funds advised by Apax Partners and other shareholders agreed to sell their stake in the Company to an affiliate of Centerbridge Partners L.P. ("**Centerbridge Partners**"). The transaction was finalized in November 2015 when 94.26% of our share capital was transferred by Farma Holding to BFF Luxembourg, indirectly controlled by the private equity fund Centerbridge Capital Partners III (PEI) L.P.

Following the ordinary and extraordinary shareholders' meeting of May 18, 2016 and May 31, 2016, 1,704 special shares were issued to members of the senior management, with the exception of Massimiliano

Belingheri, and granted without consideration to the employees of the Group, resulting in an increase in the share capital from €130,900,000 to €130,982,698.

As of the date of this Offering Circular, our ownership structure is as follows: (i) BFF Luxembourg (94.196%); (ii) Bracco S.p.A. (3.274%); (iii) Mediolanum Farmaceutici S.p.A. (1.206%); (iv) Molteni Immobiliare (0.849%); (v) Unione Fiduciaria S.p.A. Società Fiduciaria e di servizi delle Banche Popolari Italiane (0.412%); and (vi) employees holding special shares (0.063%).

For more information regarding our ownership structure, see "*Description of Share Capital*" and "*Principal and Selling Shareholder*".

Magellan Acquisition

In May 27, 2016 the tender offer in respect of all the share capital of Magellan was finalized and on June 30, 2016 we completed the Magellan Acquisition, as a result of which we currently hold 100% of the share capital of Magellan. For further information on Magellan, see "*—Subsidiaries—Magellan Acquisition*".

Subsidiaries

We are the parent company of the Group. The Company was entered on the Banking Group Register pursuant to article 64 of the Consolidated Banking Act.

The Company holds 100% of the share capital of Farmafactoring España, which provides Credit Collection Management and Non-Recourse Factoring services in connection with receivables due from the Spanish healthcare system and public administration.

The Company holds 100% of the share capital of Magellan; therefore the Company holds all of the share capital of Magellan. See "*—Subsidiaries—Magellan Acquisition*".

The business of Farmafactoring SPV I S.r.l is focused on securitization transactions and its exclusive purpose is to realize one or more securitization transactions on receivables pursuant to article 3 of the Law No. 130 of 1999. Although we are not shareholders of Farmafactoring SPV I S.r.l., it must be consolidated into our financial statements in compliance with the SIC-12 principle, elaborated by the Standing Interpretations Committee. Under SIC-12, an entity must consolidate a company when, in substance, the entity controls the company, even in the absence of an ownership interest.

As of the date of this Offering Circular, the majority of the Company's share capital, equal to 94.196%, is held by BFF Luxembourg S. à r.l., a Luxembourg company owned by certain private equity investment funds managed by Centerbridge Capital Partners (the latter ultimately managed by its general partner BFF JE GP Ltd (Jersey)).

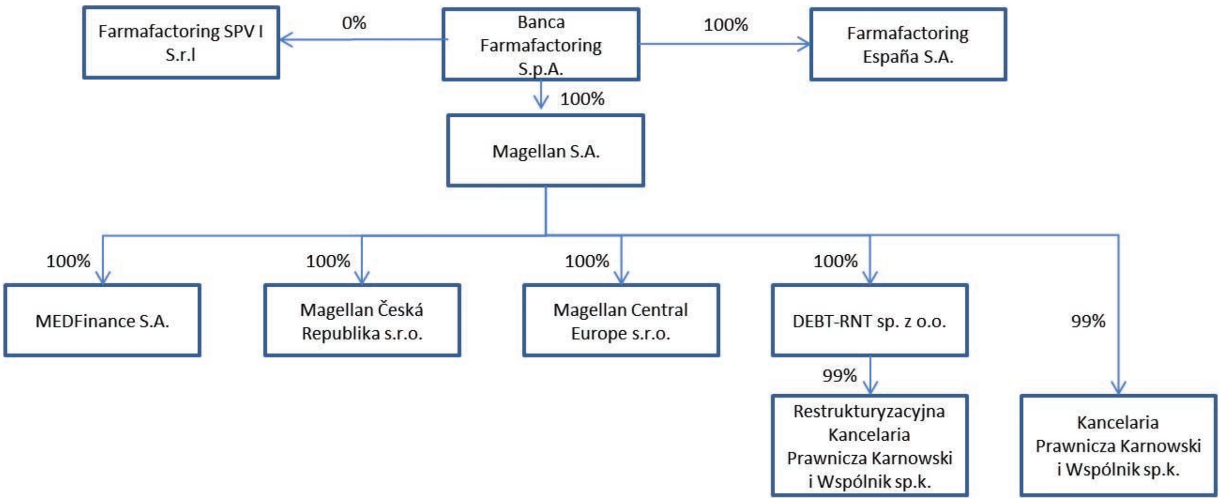
Although we believe that we are not subject to direction, management and control functions pursuant to article 2497 of the Italian Civil Code, for the sole purposes of prudential supervision reporting under Regulation (EU) No. 575/2013 (Capital Requirements Regulation (CRR)), our parent company BFF Luxembourg and, with reference to the supervisory reports made for March 31, 2016 BFF Lux Holdings S. à r.l. must include our financial data in their financial statements, which are to be submitted to the relevant regulatory authorities, with effect from December 31, 2015, even if these entities do not form part of the Group.

On June 20, 2016, BFF Lux Holdings S.à r.l was put into liquidation and its shareholding in BFF Luxembourg was transferred to BFF Canada following the liquidator's resolution of June 21, 2016. Following the supervisory reports of June 30, 2016, the consolidation perimeter for the purposes of the CRR only includes our Group and BFF Luxembourg, as the entity at the top of the consolidation perimeter for prudential supervision purposes.

In particular, pursuant to the Italian regulatory framework, should the "control" (as defined in EU Directive 2013/34 and EC Regulation No. 1606/2002) over a supervised entity be exercised by a parent financial company (*società finanziaria madre*) with registered office within the EU, which is the case with BFF Luxembourg, the obligations provided under the CRR Regulation (as defined below) in relation to banks concerning own funds, capital requirements, significant exposures and financial leverage must be complied with on a consolidated basis. Therefore, for the purposes of the supervisory consolidation provided under the CRR framework, the position of the controlling entity must be taken into account. On March 4, 2016 a servicing agreement was entered into in order to comply with the relevant set of rules described above. Under this agreement, BFF Luxembourg will regularly transmit data concerning its capital and financial situation to us so that we may proceed to analyze the relevant data in order to file our supervisory consolidated reports also including BFF Luxembourg within the perimeter of the relevant supervisory consolidation provided under the CRR Regulation.

Furthermore, we must also comply with the additional capital requirements communicated by the regulatory authority, in result of the SREP process, on the basis of the consolidated situation of the company at the head of the supervisory consolidation perimeter (*i.e.* BFF Lux Holdings until the supervisory communications effected up to March 31, 2016 and, following the latter's liquidation, BFF Luxembourg in relation to the supervisory reports to be carried out from June 30, 2016).

The structure of our Group is as follows:



As of the date of the Offering Circular, we are the parent company of the following companies:

Company	Registered office	Share capital	Shareholding
Farmafactoring España S.A.	Calle Luchana No. 23 28010 Madrid (Spain)	€ 6,100,000.00	100%
Magellan S.A.	Al. Marszałka Jòzefa Piłsudskiego 7690-330 Łódź	PLN 2,016,011.10	100%
Farmafactoring SPV I S.r.l.	Via Statuto No. 10 20121 Milan (Italy)	€ 10,000.00	0%

Magellan Acquisition

On December 18, 2015 we purchased 100% of the share capital of a Polish-registered vehicle Mediona spółka z ograniczoną odpowiedzialnością, whose registered office is in Warsaw, Poland ("**Mediona**"), from the company TMF Poland sp. zoo., a Polish company belonging to the TMF Group, which provides, among other things, corporate secretarial services, accounting and tax assistance, and support to the management of personnel of Magellan, for an amount of PLN 11,495.60.

On January 8, 2016, Mediona, announced to the market and the Polish Financial Market Supervisory Authority its intention to launch the Magellan acquisition. Magellan is a Polish joint stock company operating in the financial services market for the healthcare sector and public sector and has been listed on the Warsaw Stock Exchange from 2007 to December 6, 2016. Its registered office is in Łódź (Poland). Magellan has a share capital of PLN 2,016,011.10, consisting of 6,720,037 non-preferred shares with a par value of PLN 0.30 each. Magellan is a non-bank financial institution and, accordingly, is not subject to the Polish regulations applicable to banks. The closing price of the Magellan shares was equal to PLN 57.98 on the day prior to the launch of the tender offer (*i.e.* January 7, 2016), corresponding to a PLN 389,627,745 capitalization (equal to €89,832,573 according to the exchange rate applicable on the same day). Furthermore, the volume weighted average price relating to the three months prior to the launch was equal to PLN 55.91 (as indicated in the tender offer document).

Magellan is the parent company of the Magellan Group, which comprises a group of subsidiaries incorporated in Poland, the Czech Republic and Slovakia as well as a branch in Spain. The Magellan

Acquisition falls within our commercial and geographical diversification strategy which, with the internal growth of purchased receivables, has led to a substantial increase of profits, with significant impacts on capital ratios, which decreased in the first nine months of 2016 by more than 7 percentage points as an effect of the acquisition, and on business structures managing the grown operational complexity.

On May 2016, the Bank of Italy authorized us to acquire a shareholding amounting to more than 10% of the consolidated own funds, in the share capital of Magellan.

Once the authorization was issued, the Supervisory Authority has recommended that we take certain actions in order to ensure integration with Magellan and its subsidiaries.

On July 5, 2016, Mediona appointed the new Supervisory Board of Magellan.

On September 30, 2016 Magellan's shareholders' meeting resolved to proceed with the delisting of shares issued by Magellan, and consequently on December 1, 2016 the Warsaw Stock Exchange issued a resolution on delisting of Magellan's shares from the main market on the Warsaw Stock Exchange with effective date as of December 6, 2016.

On November 30, 2016 the extraordinary shareholders' meeting of Magellan resolved upon the merger by incorporation between Magellan (as acquiring company) and Mediona (as target company). On December 16, 2016, the registry court registered a merger between Mediona and Magellan, and Banca Farmafactoring became a direct shareholder of Magellan holding 6,720,037 shares of Magellan, corresponding to 100% votes in Magellan. In the course of the transaction, the Company also purchased an amount of own shares held by Magellan equal to PLN 23 million.

The Polish Financial Market Supervisory Authority has recommended that we adopt certain measures in order to ensure the integration of Magellan and its subsidiaries. We have already incorporated a number of the aforementioned measures and we will endeavor to comply with all the other requests within the timeframes given to implement them. No sanctions have been applied as a result of, nor are we subject to any legal proceedings arising from the process described above.

Furthermore, Bank of Italy has recommended that we:

- *Set out a capital plan that covers the strategic initiatives and outlines our capital management in order to implement the recommendations.* As of June 29 and October 18, 2016, we have sent the Bank of Italy an updated analysis of our capital requirement plan, taking into account the rating downgrade of Italy for the period 2016-2018.
- *Make sure that Magellan's board members and managers implement the provisions passed by the Company, in accordance with the measures recommended by Bank of Italy.* As of September 29, 2016, Magellan was provided with the Company's *Intragroup Resolution.*
- To this purpose, the Internal Audit should make sure of:
    1. *Functional reporting between the structures of the Company and those of its subsidiaries, as well as appropriate IT procedures.* Information flows and internal reporting have been established between the Company and Magellan. Automation of reporting processes is expected in the first three months of 2017, with subsequent verification by the Internal Audit.
    2. *Adequate increased human and technical resources to aid the integration of IT platforms.* A dedicated IT project was immediately launched to integrate IT platforms to promote connectivity and practicality. A senior member of BFF was appointed to oversee this project.
    3. *Adequate and effective solutions identified for reviewing Magellan's internal control functions, which provide the expertise required for Magellan's entry into new markets and also guarantee the independence of the Compliance function from the Risk Management function.* All the control functions of the Company and of Magellan have been established and checked, whilst we are continuing our search for a new director of Risk Management for Magellan.
    4. *Magellan's integration through the allocation of managerial resources.* One representative on the Management Board as of October 11, 2016. Three out of five members from the Supervisory Board and one representative from BFF on all of the subsidiaries' Supervisory Boards, as well as the constant presence of Company personnel in Magellan and Magellan employees receiving training in BFF.

The Internal Audit report was submitted to the Board of Directors for approval on December 21, 2016, with a follow up due to take place in September 2017.

- Internal Audit Risk and Risk Management must:

  a) *Define, at a Group level, consistent policies for evaluating exposures and the relevant adjustments/ write-backs thereto.* The entire Group consistently applies the dispositions set out in IAS39, utilizing a collective evaluation of performing exposures and an analytical evaluation of non-performing exposures. The Audit has noted that: a formal, specific document on the Group's accounting principals is due to be circulated; the project portfolio for 2017 provides for a new accounting method at a Group level as a top priority, pursuant to IFRS9.

  b) *Update the Group's incentivisation and remuneration policies and extend them to Magellan, in view of the Company's new classification as a "less significant bank".* BFF's shareholders have approved the new policies as of December 5, 2016 and they have been adopted throughout the Group.

  c) *With reference to anti money laundering (AML) regulation, pay particular attention to cross-border operations, and, subject to certain obligations in various countries, set out procedures for the Group's subsidiaries that are in line with the Group's standards and ensure shared access to information.* The Magellan Group has adopted the Group's AML policy and has issued its own AML regulation.

  d) *Draft and submit to the supervisory authority a comprehensive plan that gives evidence of organizational focal areas with subsequent "scoreboards" providing an update of the targets completed.* As of June 29, 2016, we have submitted such plan to Bank of Italy and provided updates on the targets completed, most recently as of November 16, 2016.

  The Internal Audit and Risk Management's inspections were submitted to the Board of Directors on December 21, 2016.

Future plans in respect of Magellan

We intend to support Magellan to expand the services offered to its and our customers and to reduce Magellan's cost of funding. Through the Magellan Acquisition, we aim to continue its growth strategy by: (i) taking advantage of cross selling opportunities, (ii) expanding its business in three fast-growing markets (Poland, Czech Republic and Slovakia), (iii) increase its customer base, and (iv) consider the expansion of its business in other adjacent markets.

Description of Our Business Activities by Service Segments

We are an independent operator in the Credit Collection Management and Non-Recourse Factoring segments with reference to our Traditional Activities. Our clients are primarily composed of large companies, including international multinationals that provide their products and/or services in Italy, Spain and Portugal to national healthcare service authorities ("**Public Healthcare Debtors**"), and to private entities (including religious organizations) active in the healthcare sector ("**Other Debtors**") and public administrations ("**Public Administration Debtors**" and, jointly with Public Healthcare Debtors and Other Debtors, "**Debtors**").

We benefit from having over thirty years of experience and being able to offer a range of services in the markets in which we operate, as well as from having an efficient platform which is integrated with some of the platforms of our key clients. This allows us to position ourselves as a partner in the management and disposal of receivables due by the public sector.

We have historically provided services to clients active in the healthcare sector. The majority of our clients are long-standing: as of December 31, 2016, our top 10 clients had been our clients for more than eighteen years (almost ten years if we refer to our Non-Recourse Factoring business) and accounted for approximately 46% of receivables intermediated in 2016 with regard to Traditional Activities (both Non-Recourse Factoring and Credit Collection Management services). Concerning recurring non-recourse factoring clients defined as clients who concluded at least one transaction per year between 2014 and 2016, we recorded a CAGR of 6% in the period 2008-2016 in terms of purchases with recurring clients representing on average more than 70% of total purchases with regard to data of the financial year of 2016.

In 2016, in the context of our Credit Collection Management and Non-Recourse Factoring activities, we managed €4.3 million invoices. The following table provides a summary of the main characteristics of our Credit Collection Management and Non-Recourse Factoring activities.

	Credit Collection Management	Non-Recourse Factoring
Activity	Management of the process of recovery and collection of receivables due to Suppliers, including the management of administrative issues and debt collection activities, both in court and out of court, and of other ancillary services including electronic invoicing and credit certification	Outright purchase from Suppliers of the principal amount (including late payment interest and ancillary income) of receivables mainly due from debtors of the national healthcare system and/or public administration agencies (including tax receivables from the Italian tax authorities), acquiring full ownership thereof, as well as the risk of non-payment. The receivables are generally overdue rand already bear late payment interest
Revenues	Our income primarily derives from: (i) loading fee, and (ii) collection commission	Our income primarily derives from: (i) maturity commission, and (ii) late payment interest
Credit Risk	Non-payment of commission	Non-collection of principal and/or ancillary income
Costs	The client bears all legal management costs on behalf of third parties	We bear all management costs
2016 Receivables	€2,876 million	€3,003 million

Due to the diversification of our funding resources and the reinforcement of our sales organization, our Non-Recourse Factoring segment relating to the Traditional Activities remained slightly stable across the Group in 2016 with receivables in outstanding and purchases remaining stable respectively at about €2 billion (i.e. increasing by €8 million) and €3 billion (i.e. increasing by €17 million), while volumes from our Credit Collection Management and Non-Recourse Factoring segments slightly reduced in total by about 6% from €6.3 billion in 2015 to €5.9 billion in 2016.

In Italy, we recorded a significant growth in 2015, with purchased receivables increasing by 32% compared to the previous year, notwithstanding the effects of the introduction of the Split Payment Mechanism legislation and taking into account an average VAT rate of 15%. See "*Supervision and Regulation—Italy—Split payment for VAT related to transactions with public entities*".

As of December 31, 2014, 2015 and 2016, we carried out our business with, respectively, 145, 181 and 262 clients and with 1,769, 5,956 and 6,879 debtors.

Credit Collection Management

We offer Credit Collection Management services in Italy and Spain that are tailored to the difficulties and timescales of our clients' collection processes of invoices issued to their Debtors. By performing all of the administrative and legal activities needed to carry out the collection of receivables, the service we offer allows clients to significantly reduce their internal credit management and recovery costs. In particular: (i) the efficiency of the IT platform we use to handle the different phases of the receivables management and disposal process allows us to fully interact with both clients and Debtors throughout the process, and (ii) the specialized experience which the professionals working for us have gained in this field allows clients to benefit from a better performance in terms of payment of the receivables and recovery times.

Our relationship with clients is based on management contracts which require clients to issue a mandate for the recovery of receivables and to delegate powers to us, meaning that we are legally authorized to act on their behalf and to act as a proxy for the collection of receivables under management.

In the context of our Credit Collection Management activities, clients maintain the risk of insolvency of, and the risk of late payment by, Debtors, since we only manage and do not acquire receivables. Therefore, in carrying out these activities on behalf of third parties we are only exposed to the risk of non-payment of collection and/or management commission by the client. For these purposes, we are not required to grant funding, since there is no cash payment to clients, and we only provide receivables management and collection services (including late payment interest).

The revenue generated by our Credit Collection Management activities primarily derives from the management commission paid by clients. Management commission consists of a fee paid when the receivables are accepted and an additional commission paid at the time of collection as recognition of the successful outcome of the management activity.

Our Credit Collection Management activity is strategically important, since clients often turn to us for the management of their receivables and, thanks to our clients' loyalty in this field, we are often also able to generate Non-Recourse Factoring business with the same clients.

The following table shows receivables and commission income that we have generated through our Credit Collection Management activities for the years ended December 31, 2016, 2015, and 2014, respectively.

	As of December 31, 2016	**As of December 31, 2015**	**As of December 31, 2014**
		(in € millions)	
Receivables (Credit Collection Management)	2.9	3.3	2.9
Commission income	7.8	8.4	9.4
Of which commissions for non-recourse	4.5	4.5	4.7
Of which commissions for collection	2.6	2.7	3.2
Of which other expenses and commissions	0.7	1.2	1.5

The decrease in commission income is due to the following factors: (i) the Italian law no. 190 of December 23, 2014 ("Legge di Stabilità 2015") introduced certain amendments to the VAT regime on transactions carried out with public entities and debtors of the INHS and of PA, with subsequent negative effects on management volumes; (ii) as of the start of 2015, some clients benefited from a conversion of income related to non-recourse receivables assignment transactions, with a subsequent decrease in commission income; and (iii) over the last two years, some competitors have entered the credit management market and hindered the growth of the Group's Credit Collection Management and Non-Recourse Factoring.

As part of our Non-Recourse Factoring business, we acquire outright the receivables due to our clients from their debtors. The purchase of Non-Recourse Factoring receivables allows our clients to deconsolidate the transferred receivables in accordance with the IAS and US GAAP standards applicable to the transfer of receivables. The receivables are transferred from the relevant client's financial statements to our financial statements, and we assume their full ownership, including any cost and benefit connected therewith, and, in particular, any late payment interest accruing from the due date of the receivables and other ancillary income. In the event of the non-existence of the receivables, we have the right to terminate the transfer and the client must immediately repurchase the receivables at par and return any amounts paid by us.

The purchase price is normally equal to the nominal value of the receivable net of a commission, calculated by us on the basis of a prior assessment of, among other things, the relevant credit risk (including an assessment of the assignor, the Debtor and the timing for payment).

The purchase price of each receivable largely depends on the expected payment date. Therefore, we carefully monitor the DSOs of each Debtor and input data into our historical database which contains the payment times of all invoices managed during the course of our activities (on behalf of third parties and on our own behalf). This database is used to estimate the collection times of receivables recorded in our financial statements (in order to manage our liquidity) and to determine the price of new receivables during the purchase phase in our Non-Recourse Factoring activities. The information obtained from our database is also used for liquidity management purposes and supports our internal policies which set out in detail our risk management policies and the requirements for purchasing receivables. For further information, See "*—Our Traditional Activities and Business Model*".

Once purchased by us or Farmafactoring España, receivables are managed by us on our own behalf for their entire remaining life cycle, until the principal and the recovered late payment interests are collected.

Our revenues from our Non-Recourse Factoring activities mainly derive from the following:

- *Fixed commission* ("**Maturity Commission**"). We deduct Maturity Commission from the purchase price and calculate it as a percentage of the nominal value of each receivable, as determined on a case by case basis at our discretion at the time of purchase on the basis of, among other things: (i) past payment trends of Debtors owing the transferred receivables; (ii) the quality of the portfolio transferred by the client; and (iii) financial expenses (current and future) that we must incur to finance the purchase of receivables.
- *Late payment interest.* Debtors pay late payment interest at the ECB base rate pursuant to Directive 2011/7/EU, as applied in the various jurisdictions in which we operate, which sets out the late payment interest rate applicable in the event of late payment in commercial transactions between companies or between companies and the public administration. Interest is generally collected once the nominal value of the receivable has been repaid.

The recognition of Maturity Commissions and late payment interest in our income statement reflects our income resulting from the application of the amortized cost method to the measurement of purchased non-recourse receivables, in accordance with IAS 39, based on the present value of estimated future cash flows (TIR ("*tasso interno di rendimento*") of the transaction).

At the time of purchasing of a receivable, it is registered in the balance sheet in accordance with the IAS principles at its original purchase price.

On a monthly basis the IAS value of the receivable is calculated considering the expectations of capital collection, net of the possible collections already received, late payment interests accrued until the date of evaluation and the interest accruing until the entire collection of the capital.

The IAS value derives from the calculation of the present value of these future cash flows, on the basis of the TIR ("*tasso interno di rendimento*") of the transaction valued at time of purchase. The spread between the value calculated in relation to the principal amount is the adjustment to be made to the balance sheet. The comparison between this adjustment and that calculated on the prior month as of the evaluation date constitutes the amount of interest income to be included in the income statement.

When the capital is entirely collected, the amortized cost applies only to the late payment interest yet to be collected. The spread between the adjustment value to the assets calculated on the reference month and that calculated on the foregoing month represents the impact on income statement of the interest part alone.

Any capital gains or losses incurred in connection with the collection of interest payments shall be determined with reference to the recovery amount that was initially estimated.

Late payment interest constitutes a significant income component for us. For the year ended December 31, 2016, we recorded in our income statement €163.2 million in Maturity Commissions and late payment interest. The late payment interest recorded in our income statement and balance sheet is just a part of all late payment interest accrued and legally due to us in the course of our Non-Recourse Factoring business. Previously, we estimated the recoverability percentage of late payment interest legally due to be equal to 40% of its nominal value at the estimated collection date (conservatively fixed at 1800 days) and, in the event of higher recoverability percentages (as recorded in the past), we recorded the difference as a capital gain at the time of collection. Starting from January 1, 2017 our Board of Directors, on the basis of our historical data on collected amounts and timing for collection, and in relation to the portfolio of purchased receivables in our Traditional Activities, has resolved upon a variation of the estimated amount of late payment interest collection, which shall determine an increase in the estimation of the percentage of the amount of late payment interest that will be collected up to 45%.

The amount of late payment interest accrued and legally due to us, but not yet collected, is recorded in the late payment interest fund, which at Group level was equal to €547 million, €460 million and €427 million, respectively, for the years ended December 31, 2016, 2015 and 2014. As of December 31, 2016, part of such late payment interest fund, equal to €186 million, has already been transferred to our income statement in addition to €151 million transferred as of December 31, 2015 and €113 million transferred as of December 31, 2014. In particular, for the year ended December 31, 2016, the late payment interest fund at a Group level for our Traditional Activities was composed of €487 million in Italy, €48 million in Spain and

€12 million in Portugal.The amounts of late payment interest which have not been reflected in our income statement for the years ended December 31, 2014, 2015 and 2016 (equal to, respectively, €314 million, €309 million and €361 million) represent a possible source of future income within the Group's loan portfolio, which, wherever it is carried out, even in part, could reinforce the Group's capital structure.

The table below shows our purchased non-recourse receivables and interest income generated by us, with reference to the Traditional Activities, in the context of our Non-Recourse Factoring activities for the years ended December 31, 2016, 2015 and 2014, respectively.

	As of December 31, 2016	As of December 31, 2015	As of December 31, 2014
		(in € millions)	
Receivables (Non-Recourse Purchases)	3,003	2,986	2,502
Interest income	163.2	154.5	246.1

The table below shows, with reference to the Traditional Activities, the new purchases in our Credit Collection Management and Non-Recourse Factoring segments during the years ended December 31, 2016, 2015 and 2014.

	For the years ended December 31,					
	2016		2015		2014	
	amount	% total	amount	% total	amount	% total
		(in € millions except percentages)				
Credit Collection Management	2,876	48.1%	3,301	51.2%	2,949	51.7%
Non-Recourse Factoring	3,003	50.2%	2,986	46.3%	2,502	43.9%

The table below shows, with reference to the Traditional Activities, the collections we made in our Credit Collection Management and Non-Recourse Factoring segments during the years ended December 31, 2016, 2015 and 2014.

	For the years ended December 31,					
	2016		2015		2014	
	amount	% total	amount	% total	amount	% total
		(in € millions except percentages)				
Credit Collection Management	3,290	52.3%	2,995	54.2%	3,030	—
Non-Recourse Factoring	2,995	47.7%	2,527	45.8%	2,167	41.7%

The tables below show, with reference to the Traditional Activities, the outstanding items under management in our Credit Collection Management and Non-Recourse Factoring segments during the years ended December 31, 2016, 2015 and 2014, as well as our total interest income and similar revenues during the same periods, along with the evolution by quarter from the years 2014 to 2016 of the outstanding.

	For the years ended December 31,					
	2016		2015		2014	
	amount	% total	amount	% total	amount	% total
		(in € millions except percentages)				
Credit Collection Management	—	0.0%	—	0.0%	—	—
Non-Recourse Factoring	2,017	100.0%	2,009	100.0%	2,008	100.0%

	For the years		
	2016	2015	2014
		(in € millions)	
First Quarter	1,783	1,229	1,178
Second Quarter	1,815	1,377	1,375
Third Quarter	1,694	1,581	1,362
Fourth Quarter	2,017	2,009	1,549
Fourth Quarter (including Magellan)	2,464	2,410	N/A

With reference to the Traditional Activities, the Group operated as of December 31, 2014, 2015 and 2016 respectively:

(i) In Italy, with 103, 123 and 192 clients (of which 86, 101 and 169 related to Non-Recourse Factoring) and with 1,685, 5741 and 6,688 debtors

(ii) In Spain, with 33, 49 and 59 clients (of which 31, 47 and 59 related to Non-Recourse Factoring) and with 43, 171 and 146 debtors

(iii) In Portugal (with operations commencing in 2014), with 9, 9 and 11 clients (all of which related to Non-Recourse Factoring as it is the only activity operated in this market) and with 41, 44 and 45 debtors.

The tables below show the total amount of our Outstanding Receivables in the context of our Non-Recourse Factoring activities for the years ended December 31, 2016, 2015 and 2014, respectively, divided by country.

	As of December 31, 2016	As of December 31, 2015	As of December 31, 2014
	(in approximate € billions)		
Outstanding Non-Recourse Factoring Receivables	**2.0**	**2.0**	**1.5**
Italy	1.8	1.8	1.3
Spain	0.1	0.2	0.3
Portugal	0.0	0.0	0.0

	For the year ended December 31, 2016
	(approximate % total)
Italy	75%
Spain and Portugal	7%
Poland	14%
Slovakia and Czech Republic	4%

As of December 31, 2016, we have received refusals to accept single assignments from 437 final debtors (equal to 21% of our total outstanding receivables, for a countervalue of €387.3 million) and we have collected €47.6 million as of December 31, 2016, equal to 12% of outstanding receivables.

Furthermore, the outstanding receivables purchased from 2013 to 2015 which were challenged by final debtors in relation to our non-recourse factoring business, and related to claims currently pending, as of December 31, 2016 amount to €50 million and correspond to 2.5% of the non-recourse capital exposure of the Company.

Collection of online term deposits ("Conto Facto" and "Cuenta Facto")

After obtaining a banking license in 2013, in order to further diversify our sources of funding, in September 2014 we launched the online term deposit account named "*Conto Facto*" on the Italian market. In August 2015, we started performing the collection of online deposits also in Spain through our Spanish branch, by launching the online term deposit account named "*Cuenta Facto*". In June 2016, we launched the collection of online deposits in Germany through the online platform *Weltsparen.de*, using our Spanish branch under the freedom to provide services. We perform the collection of savings for both retail and corporate customers in Italy and Spain through these online fixed-rate term deposit accounts.

"*Conto Facto*" and "*Cuenta Facto*" allow us to: (i) improve the funding of our core business through a further diversification of our funding resources, (ii) optimize the structure and cost of our funding, (iii) simplify product management, as a result of the reduced activity compared to other forms of direct deposits, such as current accounts, (iv) achieve greater liquidity control and improvement of the relevant indicators, and (v) by raising fixed rate deposits, reduce interest rates risk and, consequently, the absorption of capital and/or the cost of derivatives hedging the risks connected with our receivables portfolio. Our continued ability to offer such products may affect our funding levels. See "*Risk Factors—Risks Related to Our Business—Our dependence on access to the capital markets to maintain certain levels of liquidity and to obtain long-term financing could have a material adverse effect on our business, financial condition, or results of operation*".

Once our online term deposit accounts are opened, clients can choose to deposit their savings for a minimum of 3 months to a maximum of 36 months in Italy and 60 months in Spain (36 months for Spanish corporate customers). In the Italian jurisdiction, customers may also choose between: (i) "*Vincolo Facto*", where the amounts deposited will be tied up for the entire term and may not be withdrawn sooner, and

(ii) "*Vincolo Facto Plus*", where customers are allowed to withdraw deposited amounts sooner than the term. In order to withdraw the sums, customers must submit a release request through our website or a different channel made available by us, for an amount which cannot be higher than the maximum amount or lower than the minimum amount specified in the applicable information sheet. The release will be effective on the date on which we receive the request, and we will make the relevant sums available from the day following receipt of the request. In the Spanish and German jurisdictions, customers may choose only "*Vincoli*" corresponding to "*Vincolo Facto*", where the amounts deposited will be tied up for the entire term and may not be withdrawn sooner.

Customers who are classified as "consumers" may exercise the right of withdrawal, without penalty, within 14 days of the date of the execution of the agreement (the "cooling-off period"). During this period, the withdrawal will become effective upon receipt of notice of withdrawal from the relevant customer (to be sent via registered post). We will subsequently return the sums deposited without interest.

Customers may, on expiry of the agreed term, choose to leave the sums in the accounts and benefit from the payment of interest by us calculated on the basis of a predetermined rate.

After having chosen between the above mentioned "*Vincolo Facto*" and "*Vincolo Facto Plus*", customers may withdraw from the contract at any time, without having to pay any penalties or expenses, by giving notice of withdrawal by registered post or via the personal area of the website. If the deposits are tied up for a given period, the withdrawal will become effective upon expiry of the term, and if not upon receipt of the withdrawal notice. The sums will become available within 15 days of when the withdrawal becomes effective.

We are entitled to withdraw from the agreement at any time by giving two months' prior written notice to the customer, except where we terminate for just cause in which case the withdrawal will be immediately effective. If deposits are tied up for a given period, the withdrawal will be effective from the term expiry date.

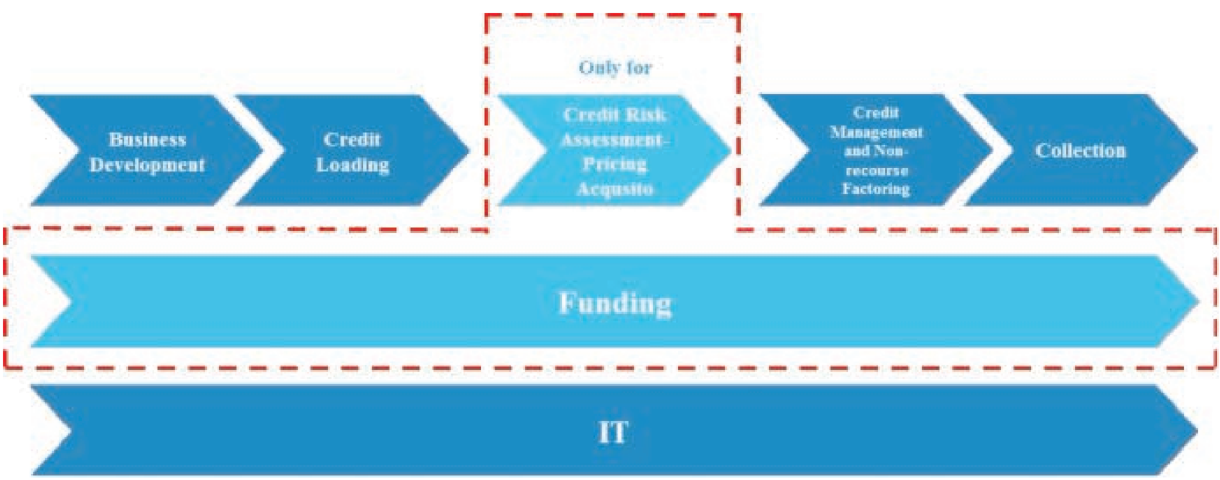
As of December 31, 2016 in Italy, Spain and Germany we had 14,118 "*Conto Facto*" and "*Cuenta Facto*" accounts, of which 14,065 related to retail clients and 53 related to corporate clients. Our deposits totaled €822.4 million, while average deposits per customer were equal to €58.3 thousand.

Our Traditional Activities and Business Model

We operate according to a single organizational model across our geographies in Italy, Spain and Portugal. Our traditional business model is also largely uniform, where our Credit Collection Management activities differ from our Non-Recourse Factoring activities only by virtue of certain activities which are specific to Non-Recourse Factoring.

Our organizational model is set out in the following chart, which shows the essential components of the value chain and the integration of the value chain with: (i) a highly technological IT system that manages most of the process, and (ii) the funding activity which is functional to our Non-Recourse Factoring activities.

The following chart shows the various stages of our value chain:



The value chain of our Credit Collection Management and Non-Recourse Factoring activities is composed of the following main stages: business development; credit loading; credit risk assessment-pricing-purchase (for Non-Recourse Factoring only); credit collection management; and collection. The entire value chain is supported by our IT system, and for Non-Recourse Factoring activities only, our funding.

Business Development

Our business development activity targets both existing and potential new clients.

We carry our business development in respect of our existing clients initially by taking advantage of the following cross-selling opportunities: (i) geographical, by offering clients the same services in different geographical areas where both we and our clients operate, and (ii) product-related, by offering Non-Recourse Factoring services to clients who already use our Credit Collection Management services. Moreover, we develop business with existing clients by offering a range of services which are constantly updated and tailored to the specific needs of each client.

In order to acquire new clients by expanding our services into new business segments, we have strengthened our commercial structure to support such expansion (increasing our salespeople from 3 in 2013 to 12 in 2016 in Italy, as well as to 5 in Spain and 1 in Portugal) and in Italy and in Spain we have entered into distribution agreements with other financial institutions, brokers, other factors, insurers and reinsurers, collectively the Intermediaries, which generated volumes of new receivables on these markets totaling €88.7 million and €15.3 million, respectively, and a total of €104 million for the year ended December 31, 2016.

In particular, as of December 31, 2016, in Italy we were party to 19 agreements with brokers and 14 agreements with financial institutions (with a total of 2,404 branches) which generated volumes of €88.7 million in total. In Spain we generated volumes equal to €15.3 million through alternative distribution channels (brokers).

On the Italian market, our commercial relationship with clients has traditionally arisen from a contract for the provision of Credit Collection Management services pursuant to which the client issues in our favor a mandate for the management, recovery and collection of one or more receivables due from Debtors. Thanks to our knowledge of our clients, their specific financial needs and the types of receivables due from Debtors, we are able to extend our relationship arising from our Credit Collection Management activity to also encompass our Non-Recourse Factoring activities.

Our clients usually execute, in addition to the contract for the provision of Credit Collection Management services, a framework agreement relating to our Non-Recourse Factoring services, which does not normally impose any obligations on us to acquire the receivables under management, and instead regulates our relationship with clients on an ongoing basis in the event that all or part of the receivables are assigned to us.

Less frequently, clients will only require either our Credit Collection Management services or our Non-Recourse Factoring services.

Any client who receives our Credit Collection Management services and does not require our Non-Recourse Factoring services, will normally only enter into a management contract and a frame agreement with us.

In the context of our Non-Recourse Factoring activities, we establish two types of relationship with our clients:

- *One shot:* the contract refers to a specific purchase transaction and terminates upon payment of the last invoice purchased.
- *Ongoing:* if the client needs to assign receivables on a regular basis, the relevant Non-Recourse Factoring contract will not refer to a specific transaction and will instead regulate the relationship between the parties on an ongoing basis, also in respect of any subsequent transfer of receivables carried out by the same parties, without having to enter into any additional *ad hoc* agreements. The agreements will come into effect upon the acceptance of the purchase offer and will terminate upon payment of the last invoice purchased.

We constantly monitor our client satisfaction both (i) directly, through our sales network, and (ii) since 2007 indirectly, by appointing independent third party experts to carry out customer satisfaction surveys.

Credit Loading

At the beginning of our relationship, a client sends us the load flow of receivables to be transferred. Subsequently, the invoices relating to such receivables are loaded onto our factoring system (the "**Factoring System**").

The factoring system verifies the accuracy of the load flow received and reports any anomalies to be corrected. Therefore during the credit loading phase, our credit management team is constantly in touch with the client in order to resolve the anomalies reported and to obtain further clarifications, if needed.

Following completion of the credit loading stage, we manage and update our accounting ledgers through our Factoring System.

Non-Recourse Factoring: Credit Risk Assessment-Pricing-Purchase

Our business model contemplates, in respect of our Non-Recourse Factoring business only, a phase that entails credit risk assessment, pricing and credit purchase activities, as described in more detail below:

Credit Risk Assessment

We manage the credit risk of Debtors (*i.e.* the risk of insolvency of assigned debtors, which mainly include entities belonging to the national healthcare services and public administration sectors) as well as the credit risk of assignors (*i.e.* the risk connected with the existence and/or with the value of transferred receivables) in accordance with the applicable regulation (the "**Credit Regulation**"), which describes the technical rules and determines the organizational and control safeguards.

This activity comprises the following phases, the outcome of which must be successful before we can proceed with the purchase offer:

(i) Preliminary assessment of the potential assignor

During this phase, we evaluate the assignor's position, taking into account certain parameters such as its financial stability, competitive position, invoice quality and compliance with current anti-money laundering regulations and applicable regulatory provisions.

(ii) Selection of the eligible Debtors

- For Public Healthcare Debtors in Italy, Spain and Portugal and for Spanish Public Administration Debtors, our credit analysis and Debtor selection are mainly based on data processed through our database which, with respect to Italy, contains historical data on the timing for payment collected in the course of our business, compliance with settlement agreements and progress of any legal proceedings.
- For Public Administration Debtors in Italy, the following distinction must be made: (a) in the case of central or regional public administration agencies, our credit analysis is predominantly based on data collected through our database; (b) in the case of municipalities, our credit analysis is based initially on an internal scoring system and is subsequently verified by our analysts on the basis of accounting data, the most recent accounting information available for each municipality, the performance of our portfolios and other publicly available information; and (c) for other public sector agencies (i.e. provinces, and other entities) our credit analysis is based on individual evaluations on the basis of accounting data, the most recent accounting information available for each agency and other publicly available information.
- For Other Debtors, each year we assign a total cap to the purchase of receivables from this category of debtors and to each entity within such category. Our preliminary assessment of Other Debtors is primarily based on the analysis of their accounts and accounting positions, the data of the Bank of Italy reporting system (*centrale rischi*), our performance and qualitative aspects such as reports produced following on-site site visits at the Debtors' facilities.

We manage all of our preliminary assessment phases in respect of clients and debtors through an electronic credit application.

(iii) Credit risk assessment

Our credit risk assessment activity consists in the assessment of debtors who owe the receivables to be purchased by us. On the basis of qualitative and quantitative parameters (such as the age of the receivable owed by the relevant debtor), we select the receivables that we may acquire from those owed by Debtors deemed to be eligible. The portfolio composed of such receivables is subsequently assessed by our business unit responsible for its pricing.

In Italy, the receivables that we purchase within the context of our non-recourse factoring business have a low risk profile concerning relative disputes for the following reasons: (i) the risk connected to faults and flaws of the transferred titles of credit is at a minimum level as, at the moment of assignment, the assignor undertakes to reacquire the receivable should the documentation relating to the certainty and enforceability of the receivable be lacking or insufficient for the purposes of proceeding in the relative payment collection; and (ii) for the reasons explained below, the consent of the debtor is not required for the purposes of credit assignment. Furthermore, the assignors are almost always clients of high standing reducing dilution risk.

In Spain and Portugal, the risk of disputes concerning the purchased receivables is mitigated by the fact that the assigned receivables are usually accompanied with a certification of "*conformidad*" (in Spain) or a "*numero de compromiso*" (in Portugal), certifying that the relative payment is due by the respective debtor.

In both Spain and Portugal, although there is a risk of purchasing receivables without the provided certification ("*conformidad*" in Spain and "*numero de compromiso*" in Portugal), this risk is limited by the fact that: (i) in Spain, as the contractual conditions applied by the Group provide that the invoices in relation to which "*conformidad*" is not given by the debtors may be returned to the assignor, the possibility of invoices without "*conformidad*" constitutes an unlikely and temporary event; and (ii) in Portugal, no purchases of receivables are carried out concerning receivables originally without a "*numero de compromiso*".

Furthermore, the risk related to limitation periods of claims is limited: (i) in Italy, by automatically (and at least once a year) sending notices to the assigned debtors that interrupt the statutory limitation periods; (ii) in Spain these same notices are sent on a quarterly basis; and (iii) in Portugal reminders are regularly sent and the credit management procedures provide the initiation of legal action once certain levels of payment delay have been reached.

In more detail, in Italy, for the purposes of the assignment of the receivables, the consent of the assigned debtor is not always sought, the latter being only able challenge the assignment within 45 days from the date of the relative notification. However, we do not consider this to represent a profile of risk as: (i) according to settled case law, the possibility of an assigned debtor's refusal to accept the assignment does not apply to receivables relating to a supply of goods or services which has already been carried out (which is the case with all of the receivables we purchase); (ii) the healthcare entities which refuse to accept the assignment do however consent to the granting of a credit collection mandate that the clients provide us with so, therefore, the flows of payment would not be compromised; and (iii) even if the debtor were not to acknowledge the aforementioned mandate and should continue to make payments directly to its respective supplier, we would be able to collect the relevant payment from the same supplier (as is provided in an ad hoc contractual clause) being therefore exposed to a more residual risk.

Pricing

Following the risk assessment phase, we set the price of the receivables to be transferred to us, which we then propose to each client in the context of our Non-Recourse Factoring business.

During this process, we analyze the portfolios to be acquired on the basis of: (i) the assessment made by our business units responsible for assessing the quality of our clients and assigned Debtors, and (ii) the payment history contained in our database.

We pay particular attention to the DSOs of each entity belonging to the national healthcare services and public administration in order to correctly determine the pricing and value of the acquired receivables. For Italian Public Healthcare Debtors, we have detailed and extensive historical data on payment delays which we have recorded in thirty years of activity in respect of each ASL and AO.

Our pricing activities are carried out by a specialized business unit which has a reporting function which is separate from the commercial and credit management functions and relies on our Factoring System for any data flows received from other business units, including data relating to: (i) management costs, (ii) assessments on the timing for the collection of receivables, (iii) assessments on the quality of the credit exposure, and (iv) the availability and cost of funding.

With respect to receivables due from the tax authorities, we rely on due diligence activities carried out by external experts in order to estimate the timing for payment and assess their credit quality.

Thanks to this application we are able to determine the price of the receivables to be acquired through an objective assessment. More specifically, the price is generally equal to the nominal value of the receivable net of our commission fees, calculated as described above.

If the client accepts our pricing proposal, we send them our final proposal and, if this is accepted, we proceed with the purchase.

Purchase of receivables

The tables below sets forth the breakdown of receivables purchased by the Group and the outstanding for non-recourse factoring on a quarterly basis for the year ended December 31, 2016, 2015 and 2014.

	2016 As of			
	March 31	**June 30**	**September 30**	**December 31**
	(in € thousands)			
Purchased receivables	579,557	730,234	545,583	1,147,433
Total	**3,002,807**			

	2015 As of			
	March 31	**June 30**	**September 30**	**December 31**
	(in € thousands)			
Purchased receivables	308,621	679,054	781,325	1,216,775
Total	**2,985,775**			

	2014 As of			
	March 31	**June 30**	**September 30**	**December 31**
	(in € thousands)			
Purchased receivables	420,994	599,580	525,814	955,238
Total	**2,501,626**			

The Group's purchasing of receivables is predominantly focused on overdue receivables; at the time of purchase, a new expiry date is set by us for our internal purposes that coincides with the expected collection time. The expired exposures therefore refer to receivables that hadn't yet been collected within the timeframe estimated when they were purchased.

Italy

We usually enter into an authenticated and registered private written agreement with our clients in order to have evidence of their representations in respect of the assigned receivable.

In this way we receive full and exclusive entitlement of the receivables purchased on the basis of factoring agreements pursuant to Articles 1260 and following of the Italian Civil Code, as well as to Law No. 52 of February 21, 1991 (the "**Factoring Law**") held by certain businesses operating in the healthcare system in exchange for their supply and/or hospital healthcare services to the benefit of ASLs, AOs and national healthcare system's entities operating in different regions of the Republic of Italy.

Our business consists in the non-recourse purchase of receivables (*i.e.* without guarantee of debtor solvency) on a revolving basis (*i.e.* until a certain the amount provided under the relevant factoring agreement has been reached) and relates only to receivables originated by supplies already carried out. Pursuant to the Italian regulatory framework, the assignment of receivables is notified to the assigned debtors in accordance with article 69 of the Royal Decree No. 2440 of November 18, 1923 and notified pursuant to Law No. 53 of 1994. Pursuant to Article 106 of the Legislative Decree No. 50 of 2016, for the completion of the purchase of receivables, the expressed consent of the assigned debtor is not required, being sufficient that the assigned debtor does not refuse the sale of the relevant receivables within 45 days. For more information see "*Business—Our Markets*".

Pursuant to the agreement, the Assignor undertakes a number of obligations towards the Company:

- to deliver to the Company, within 30 business days from the request, copy of the invoices (where available) related to the assigned receivables together with all relevant documentation concerning the same receivables, as well as a copy of the agreements, orders and order confirmations, upon the acquisition of the original assignors;

- to transfer to the Company the benefits deriving from possible guarantees against the risk of deterioration or non-recovery of the asset provided under the relevant agreement from which the receivables arise;
- to cooperate as closely as possible with the Company, providing any relevant news in respect of debtors' solvency and, in general, any oppositions, claims, complaints, judicial or extrajudicial requests and on-going disputes.

Receivables purchased by the Company are subject to a limitation period of 10 years (as regard the capital) or 5 years (as regards the notes); the Company neutralizes the risk of time-barring by soliciting payment at least once a year through the Factoring System which automatically sends a notice that interrupts the limitation period.

Receivables purchased by the Company pursuant to the Factoring Law may be assigned by the Company to the vehicles for the securitization of receivables pursuant to and in accordance with Law No. 130 of April 30, 1999 (the "**Vehicle**" and the "**Securitization Law**", respectively).

As of the date of this Offering Circular, a single securitization transaction structured with a member of the Deutsche Bank Group is currently outstanding. The transaction, originally executed on October 2012 and subsequently renewed, is a non-recourse assignment of receivables towards the local healthcare authorities and the hospital authorities, aimed at diversifying funding activities. For more information, See "*Risk Management—Securitization transactions*".

The assignment to the Vehicle is generally on a non-recourse basis for a certain assignment price that will be paid by the Company in change for the issuance of securitization securities to be underwritten by professional investors (the "**Securitization**").

The assignment of receivables within the context of a Securitization is generally a block transaction pursuant to the provisions set out under the Securitization Law and the Consolidated Banking Act (and the relative legal and regulatory framework of implementation). Thus, receivables are selected on the basis of pre-defined objective criteria (recognizable by the assigned debtor) and so as to guarantee their legal and financial uniformity. In addition, for the purpose of enforcing the assignment against the assigned debtors, the following activities will be carried out:

- publication of the notice of receivables assignment in the Official Journal ("*Gazzetta Ufficiale"*) of the Republic of Italy;
- the registration of the assignment in the relevant companies register;
- due to the assigned debtors being public entities, each assignment agreement will be executed through a public deed ("*atto pubblico*") or authenticated private deed ("*scrittura private autenticata*") and is notified to each public administration in its quality of assigned debtors, pursuant to and in accordance with the articles 69 and 70 of the Royal Decree of November 18, 1923 and relative implementing provisions.

In particular, the Securitizations were executed by the Group between the years 2011 and 2013, before the amendments to the Securitization Law which currently expressly excludes the application of Articles 69 and 70 of the Royal Decree of November 18, 1923 and related implementing provisions to the assignment carried out in the context of securitization transactions.

Portugal

Receivables are purchased through an authenticated private deed pursuant to Decree Law No. 171 of 1995 and the purchase is notified in accordance with Article 583 of the Portuguese Civil Code. Neither an express acceptance by the debtor is necessary nor a denial is requested.

Receivables are mainly purchased together with the "*numero de compromiso*", i.e. a certification of the existence of the receivable. For more information, See "*Business—Our Markets*".

The purchases without "*numero de copromiso*" have been executed on assignor of a primary standing. In addition, in the agreements entered into with Portuguese costumers, we generally include a clause providing that the assignor guarantees the compliance of the assigned documents with the law regulating the "*numeros de compromiso*" (Law of February 22, 2012).

As of December 31, 2016, out of the total amount of receivables purchase, an amount equal to €20.4 million (15%) was purchased without "*numero de compromiso*".

For the purpose of interrupting the limitation period of the purchased receivables solicitations are periodically sent and credit collection management procedures provide for the filing of legal actions where certain thresholds of delay in payment to be reached.

The limitation period in Portugal lasts 20 years in relation to capital and interest and 5 years as regards the notes of debt (documents that we issue the event of a debtor's late payment) and will be interrupted by a notice of injunction ("*Injunção*"). Under Portuguese law, the notice procedure is carried out through a national IT platform of the Portuguese Ministry of Justice.

Spain

The purchase of receivables by Farmafactoring España takes place through the subscription of a private deed. Pursuant to article 218 of the Law of Public Sector Contracts (Royal Legislative Decree 3 of November 14, 2011), the notary public also notifies the credit transfer transaction to the assigned debtor and, therefore, the notification automatically signifies the debtor's acceptance.

Purchased receivables held towards the public administration are notified to debtors, who, according to article 218 of the Law of Public Sector Contracts must automatically acknowledge the transaction and cannot oppose it.

Usually Farmafactoring España reviews credit quality and related documentation, especially with respect to receivables with a lower value. In any case, in Spain the executed agreements provide, as in Italy, the possibility to transfer the credit to the transferor if any credit defect is detected. In addition, in Spain the risk of disputes concerning the purchased receivables is reduced as the purchased receivables are usually certified, through a certification of "*conformidad*", as certain debt owed by the relevant debtor from a financial, legal and administrative standpoint. For more information, See "*Business—Our Markets*".

The right to claim a debt, pursuant to article 1964 of the Spanish Civil Code, as amended, is time-barred after 5 years if no claim has been filed. In order to prevent the prescription of the right, all unpaid invoices are claimed by Farmafactoring España through a formal "administrative process" on a quarterly basis, which, under Spanish law, is the condition requested in order to initiate any legal action against the public administration.

Credit Portfolio Management

We carry out credit portfolio management in respect of receivables managed on behalf of third parties as well as receivables acquired and then managed on our own behalf, in the following areas:

Activities with respect to our clients

These activities involve: (i) the management of the administrative aspects of the credit management process, including the disclosure provided to clients in relation to potential issues in connection with the receivable, (ii) the identification and removal of any obstacles to payment (for example, where invoices are challenged by Debtors), and (iii) discussing with clients any actions that need to be taken with respect to Debtors, including returning receivables to clients, as contractually provided in the context of our Non-Recourse Factoring business.

We offer our clients tailored services such as electronic invoicing and the certification of receivables:

- *Electronic invoicing*. In Italy we offer our clients the option to use the "*SmartFlowPA*" platform to transmit electronic invoices directly to the Interchange System ("**SDI**") and to Debtors. This platform is specifically developed to make the transmission and monitoring easier and is managed directly by us internally. Through this platform we also offer clients the option to use systems for the storage of invoices in electronic format;
- *Certification of receivables.* This service, introduced in 2008 and re-launched in 2012 (falling within the scope of Italian Legislative Decree No. 35/2013 and Italian Legislative Decree No. 66/2014), is aimed at: (i) enabling the central government to quantify with a greater degree of certainty the amount of the public administration's debt, and (ii) assisting creditors in the management and collection of their receivables, also through the sale of certified receivables. We are able to follow the entire certification process on the platform for the certification of receivables (PCC).

The communication and exchange of documents and information between us and our clients can take place through *Farm@link,* our application platform that interfaces directly with the clients' IT systems through the exchange of structured data flows.

In Portugal, where we operate under the freedom to provide services, we use two external credit management companies.

Activities with respect to debtors

These activities involve:

- *Verification of receivables.* We regularly carry out the verification of receivables, which involves: (i) checking the relevant documentation, (ii) sending payment reminders, (iii) reconciling ledgers, (iv) managing any dispute regarding the documentation relating to the receivables, (v) on-site visits at the Debtors' facilities, and (vi) preparing settlement proposals and/or repayment plans.

  (a) In Italy we perform credit management through two internal units (one for Public Healthcare Debtors and Other Debtors and the other for Public Administration Debtors) and an external network, composed of companies external to the Group, called "credit verification companies" ("**Sovec**") located throughout Italy. Sovec are responsible for ascertaining and verifying any obstacles to payment of the invoices, and verify the size of the receivables due from each Debtor by means of on-site visits at the Debtors' facilities.

  Sovec are an operational extension of the administrative support activities that we offer clients and Debtors. Sovec obtain the information necessary for our credit management purposes, without having any executive or decision-making powers or any authority to collect payments. The Sovec's activities are coordinated and supervised by one of our specialized business units.

  Sovec perform periodic Debtors' visits. One section of *Farm@link* specifically relates to the activities of Sovec and manages the scheduling of on-site site visits at Debtors' facilities, the submission of reports after the visits, flows of requests, responses/lack of response, flows in the state of progress of the payments on the accounting ledger and other documents.

  With specific reference to the receivables managed in the context of our Non-Recourse Factoring activity, in order to comply with any accounting and/or regulatory requirements applicable to us, each managed receivable is attributed a risk index on the basis of the documentation received, the age of the receivables and any available information. The allocation of the risk index is automatic and is generated by the Factoring System which, for each receivable, also proposes a corresponding management procedure.

  (b) In Spain, the verification of receivables carried out by Farmafactoring España primarily relates to contested invoices for which the debtor does not provide "*conformidad*" (compliance). Once we identify the reasons why the Debtor will not validate the invoice (incorrect amount, need for additional documentation, etc.): (i) with regard to our Credit Collection Management activity, Farmafactoring España will enter the information received into a ledger and the client will automatically receive an email updating them on the situation, and Farmafactoring España will maintain contact with the Debtor in order to obtain the "*conformidad*" of the invoice and (ii) with regard to our Non-Recourse Factoring activity, Farmafactoring España will normally ask the client to provide the Debtor with additional documentation and will maintain contact with the Debtor until "*conformidad*" of the invoice is obtained. Where the "*conformidad*" not to be obtained/verified, the related invoice will be returned to the assignor.

  (c) In Portugal, in the context of our Non-Recourse Factoring activity, our Credit Collection Management business unit periodically carries out on-site visits at Debtors' facilities (SPA and EPE hospital structures); alternatively, we may appoint external agents (similar to Sovec companies) on a one-off basis to carry out this task. In any event purchases of receivables originally lacking of the "*numero de compromiso*" or of the certification that the receivable is owed to the assigned debtor will not be concluded.

- *Monitoring.* We perform timely, efficient and constant monitoring of receivables through a dedicated reporting system analyzing such receivables in the required level of detail. The Credit Regulation requires the constant monitoring of the credit risk of each Debtor, in order to verify our maximum exposure to them and, in particular, to those deemed to be more risky.

- *Reminder.* We send reminders and define repayment plans in respect of principal amounts and late payment interest. The reminder is sent to Debtors through a document which is automatically generated by the Factoring System and highlights the overdue invoices for which a reminder has not yet been sent. Moreover, each year the Factoring System automatically generates for each Debtor a reminder document for all receivables not paid. In addition to these annual and intra-annual reminders, when necessary, we transmit additional *ad hoc* reminders by various means, for example by telephone, email or fax.

  (a) *Italy*: We send reminders to Debtors either directly or through Sovec, in both cases based on a specific and consolidated territorial competence.

  (b) *Spain*: Farmafactoring España sends reminders to Debtors directly through internal business units.

  (c) *Portugal:* At the end of each calendar year, we send payment reminders to all Debtors, providing a list of overdue invoices.

- *Settlement Agreements.* In order to collect receivables, we may enter into settlement agreements with Debtors pursuant to which we may grant payment extensions or agree to reduce the amount of late payment interest due from them. The procedure for starting the negotiations aimed at reaching a settlement differs depending on whether the receivables are managed on our own behalf, or on behalf of our clients. If we manage receivables acquired in the context of our Non-Recourse Factoring business on our own behalf, we can independently weigh up the advantages of starting negotiations with Debtors, whereas if we manage receivables on behalf of third parties, the settlement will take place on terms agreed upon with the client. Where the relevant receivable has been acquired by us, the settlement will take place on terms determined by us in advance for each position. Settlement agreements in respect of receivables acquired by us will never include waivers or discounts of the principal amount due.

- *Legal Actions.* We rely on our internal structure as well as (for Italy, Spain and Portugal) a network of professionals who deal with the following activities: (i) commencing legal proceedings, (ii) recording the proceedings in the Factoring System and continuously updating their status, (iii) identifying the best route from a legal perspective to collect the receivable, (iv) identifying the law firms to be involved, (v) monitoring the progress of the proceedings, and (vi) recording in the Factoring System the amounts collected in respect of principal, interest and legal expenses at the end of the proceedings. Even if we have already taken legal action against a Debtor, we may still reach a settlement with them.

Italy

If the receivables under management have not been fully or partly collected during the previous phase involving reminders, settlements or out-of-court repayment plans, we will take legal action against the relevant Debtor. The procedure for taking legal action is essentially the same whether we manage receivables on our own behalf or on behalf of third parties, although in the latter case, we must agree all decisions in respect of this phase with the relevant client.

In Italy, lawsuits aimed at credit recovery are generally brought before the Court of Milan.

Even if sometimes the debtors challenge the territorial jurisdiction of the court requested by the Company, in the majority of cases the courts do not find in their favor (and, should they instead find in their favor, the credit recovery still would be possible).

In the context of receivables whose recovery has been started through a petition for injunction (equal to €541 million), as of December 31, 2016 the oppositions filed by the relevant debtors totaled to approximate amount of €82.8 million, equal to 15% of disputed receivables.

At the end of the trials concerning debtor objections, we recover in any case the total amount of the receivable, represented by invoices relating to supplies which have been entirely and duly carried out by the original supplier (*i.e.* assignor). Where the receivables should not to be certain, for a fixed amount and overdue, it is returned to the original supplier (assignor).

Spain

In Spain, court jurisdiction is determined on the basis of where the debtor (the public administration) has its registered office. Legal action is taken following the sending of a remainder letter for all unpaid invoices, starting the formal "administrative procedure" (a necessary requirement in order to file the relative lawsuit against the public administration).

Portugal

In the event of debtor opposition or enforcement proceedings, court jurisdiction is also determined on the basis of where the debtor has its registered office.

In the context of receivables whose recovery has been started by means of the petition for injunction (equal to €6.9 million), as of December 31, 2016 the percentage of receivables in relation to which debtors have filed an opposition is minimal (3.1%) so therefore, almost all of the receivables have been paid (those unpaid totaling to less than €500 thousand).

Collection

We carry out this activity in the context of both our Credit Collection Management and Non-Recourse Factoring businesses. In particular, we: (i) manage and constantly update the tables containing the conditions relating to our relationship with assignor clients, (ii) reconcile the collections and (iii) resolve outstanding amounts and process credited amounts in respect of receivables on a daily basis. In order to carry out this activity, we also use the "Expert" system, which supports the reconciliation of collections carried out in the context of our Non-Recourse Factoring business that remain within the Group and of those carried out in the context of our Credit Collection Management business that are credited to the client. Collection management also entails invoicing commission and/or expenses to clients.

As shown above, the development of the Group's credit collection business has allowed the Group to increase its revenue in different areas in which traditional business activities are carried out, as is represented in the table below, with express indication of the amount of revenues related to receivables whose recovery has been carried out via legal action (the "**Disputed Receivables**").

	As of December 31,		
	2016	**2015**	**2014**
	(in € millions)		
Collected Amount	**6,285**	**5,522**	**5,197**
Italy	5,836	4,931	5,074
of which Disputed Receivables	—	—	—
Spain	408	537	5,121
of which Disputed Receivables	—	—	—
Portugal	40	54	2
of which Disputed Receivables	—	—	—
Collected Amount from Non-Recourse Factoring	**2,995**	**2,527**	**2,057**
Italy	2,564	1,956	2,057
of which Disputed Receivables	363	*345*	*394*
Spain	391	517	108
of which Disputed Receivables	—	—	—
Portugal	40	54	2
of which Disputed Receivables	*7.7*	*4*	*0*

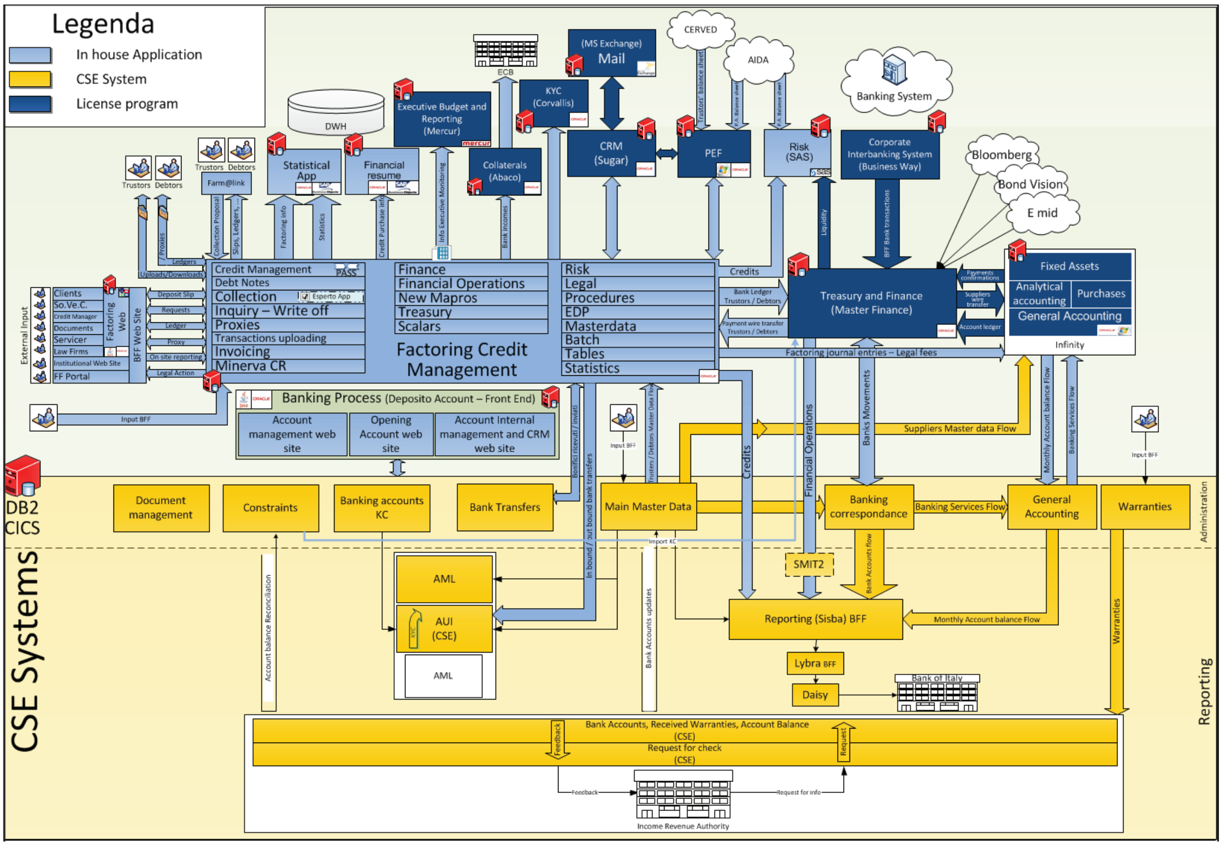
IT System

With respect to our Traditional Activities, we manage our receivables through a specialized and efficient IT platform. We have developed internally, in part by integrating aspects with systems under user licenses, an *ad hoc* IT system which gives us a competitive advantage in the Southern European Market in terms of (i) speed and efficiency of our activities and (ii) integration with IT systems of creditors (or assignors) and debtors. This has allowed us over the years to reduce management costs and to benefit from economies of scale, also by using the so called "*Expert System*". For example, in the year ended December 31, 2016, we managed electronically with our IT platform almost €4.3 million invoices throughout Italy, Spain and Portugal.

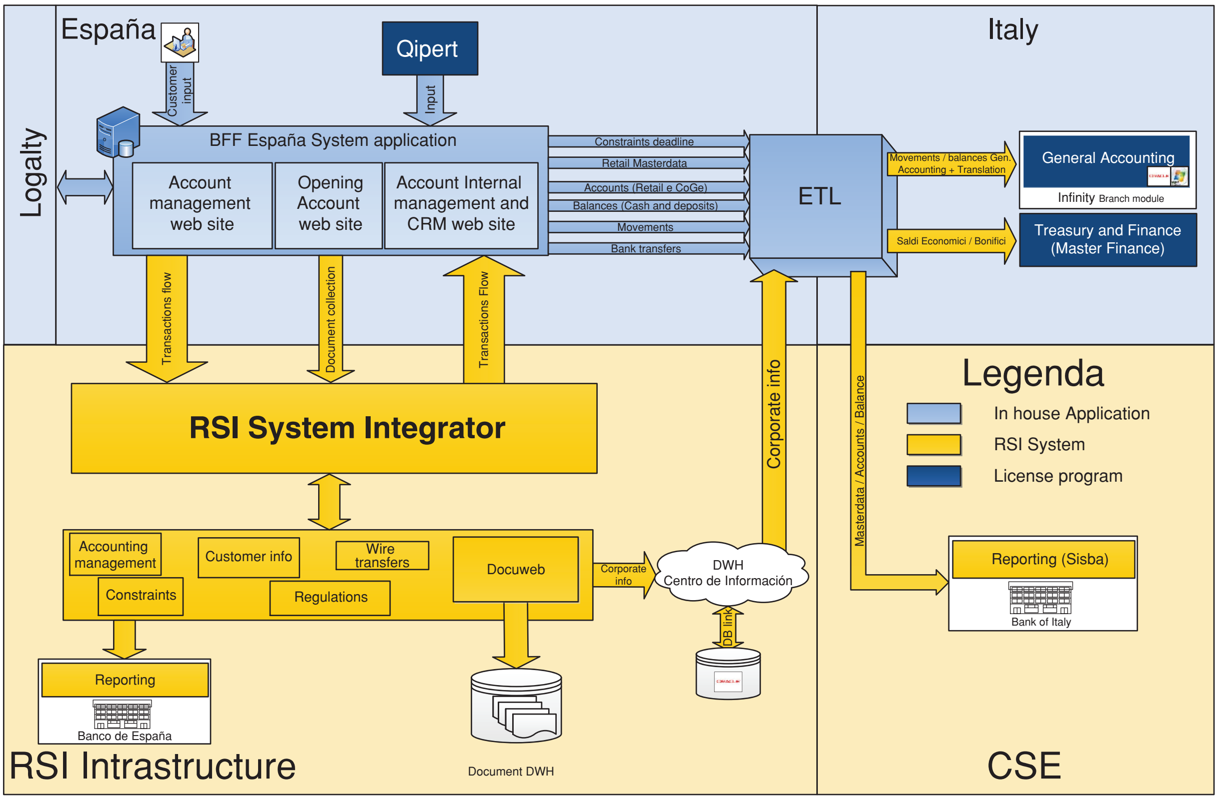
In the last three years, we have made significant investments (as described in more detail below) to support our expansion in other European markets (Spain and Portugal) and the development of new products (such as term deposit accounts in Italy, Spain and Germany) which have additional efficiency margins before reaching full capacity.

The technological architecture of our systems is a competitive advantage of our business, both in terms of hardware and software, and was designed to ensure continuity in the provision of services, operational stability and the provision of high quality services for end users, including us internally and clients and Debtors externally. Our technological architecture also supports the activities of Farmafactoring España and our activities in Portugal.

Our application infrastructure relating to our factoring services and our "*Conto Facto*" term deposit account consists of: (i) proprietary or internally developed software systems for the management of factoring, (ii) third party systems acquired under user license for the management of all activities supporting our core business, and (iii) services performed by Consorzio Servizi Bancari Soc. Cons. a r. l. ("**CSE**") for the management of: our banking activities and, in particular, our "*Conto Facto*" term deposit account, the *Archivio Unico Informatico* ("**AUI**"), anti-money laundering, supervisory reports to the Bank of Italy, communications to the Italian taxation authorities (*Agenzia delle Entrate*), payments and data regarding clients and Debtors.



With the launch of our "*Cuenta Facto*" term deposit account in Spain in August 2015, we added to the above infrastructure the integrated services provided by the outsourcer *Rural Servicios Informatico Sociedad Civil* ("**RSI**").



A front end system interacts with the services provided by RSI for the management of banking activities and, in particular, of our "*Cuenta Facto*" term deposit account, the supervisory reports to the Bank of Spain, anti-money laundering and the management of payments.

We have developed our own "proprietary" software application systems for the management of our factoring activity mainly as a result of: (i) the absence on the market of Enterprise Resource Planning ("**ERP**") solutions for the management of our factoring activity and (ii) a unique business model characterized by features which are not compatible with standardized solutions. This decision still represents, today, one of our key competitive advantages in terms of customization and flexibility of the services provided and ability to adapt to the needs of the market.

The software application systems acquired under a "user license" and ICT banking services provided by CSE and RSI are fully integrated with the "proprietary" modules, assuring the efficiency of the operating processes and the mitigation of corporate operational risks. The integration is accomplished both through real time connections and through "batch" procedures, depending on operational needs.

Over the past five financial years, we have experienced certain minor IT system malfunctions none of which caused a material business interruption, including, for example, (i) a breakdown in our storage mechanism, causing an unavailability to approximately half of our email accounts, which were restored to full working order within eight business hours following the breakdown; (ii) minor failures in our robotic library back-up which interrupted our backup/restore activities for short periods and (iii) breakdowns of four application systems for approximately two and three business hours, respectively, due to the zero day virus infecting our server briefly.

Proprietary systems

The "core" of the IT architecture is the Factoring System, resulting from our know-how and experience accumulated over thirty years in this field. Such system was developed in a flexible manner so that it can take into account and adapt to the evolution of the business and regulatory changes.

The Factoring System governs the entire cycle of the receivables management activity, from when the receivables are uploaded onto our ledgers to when they are collected, and allows for the automatic management of a high number of documents while employing a small number of resources.

The Factoring System is integrated with other proprietary systems, such as:

- The "**Expert system**", which automatically processes the payment records received (in the year ended December 31, 2016, more than 390,000) and produces the accounting documents collection proposals;
- The "**Statistical system**", which manages the monthly consolidation of numbers relating to our credit management activity (*e.g.* receivables loaded, non-recourse receivables acquired, receivables collected, DSOs, late payment days, pending legal actions etc.) and gives material support in the pricing phase in the context of our Non-Recourse Factoring business;
- The "**Financial Results**" system, which calculates, for purchases of non-recourse receivables, the final margins of each transactions and lot; and
- The "**Farm@link system**", designed and developed to facilitate the flow of structured information between:
  - assignors and the Company or Farmafactoring España and *vice versa*, by predetermined deadlines, with regard to ledgers, payments and requests pertaining to challenges against them; and
  - companies of the Italian national healthcare system and us, in real time or by predetermined deadlines, with regard to accounting ledgers and payment mandates.

Our other proprietary systems include websites in the following areas: (i) institutional websites, containing general information about us and Farmafactoring España, (ii) the front ends of "Conto Facto" and "Cuenta Facto" for our Italian and Spanish clients with regard to the opening of accounts and their operational management and for the use of internal users and of the outsourcers Caricese and Qipert with regards to the BPM (Business Process Management), (iii) the client portal with reserved client access, (iv) the Factoring Web whose B2B applications enable us and Farmafactoring España to interact with our main counterparties (clients, external law firms that manage the collection of receivables through the courts, Sovecs and service providers of receivable securitizations).

Systems under User License and ICT banking services

The remaining part of our IT system includes systems under "user license" and of ICT services performed by CSE and RSI, integrated, when necessary, with the proprietary systems and with each other. These systems can be grouped in: (i) Management Systems (such as, by way of example, Treasury and Finance, Corporate Banking, Accounting, Budget and Reporting, Internal Audit), (ii) Communication Systems with the Bank of Italy, Bank of Spain and tax authorities (reporting to the Bank of Italy reporting system (*centrale rischi*), the Bank of Spain, anti-money laundering, Italian tax authorities), and (iii) Main Bank Services (CSE and RSI) (General Database, Treasury, General Accounting, Current Accounts, Liens, Transfers, Document Management).

During 2015, the following new systems under user license were introduced: (i) management system of the electronic credit line procedure, (ii) Customer Relationship Management and (iii) Data Analysis and Reporting System for Risk Management (SAS). During 2016, the following new systems under user license were introduced: (i) management of the intranet of the company, and (ii) management of the performances of the employees (MBO).

IT System Security

Security and data protection is a top priority for us. For many years we have had an Information Security Management System ("*Sistema per la Gestione della Sicurezza delle Informazioni*" or "**SGSI**") in accordance with applicable regulations and with the industry's international best practice, in particular the ISO 27001:2013 and ISO 27002:2013 standards.

Information security systems operate according to the three principles defined by best practice (Availability, Integrity and Confidentiality). Control systems have been implemented to prevent the loss (backup) or alteration (antivirus, Web/URL filtering) of data, external access to the IT systems (IPS, firewall, HTTPS, VPN), access to the IT systems by internal personnel (authentication systems, access policies, management of system administrators according to applicable regulatory requirements).

Business Continuity and Disaster Recovery Plan

In accordance with regulatory provisions and with the ISO 27001:2013 and ISO 27002:2013 standards, we have adopted, within our SGSI (Information Security Management System), a Business Continuity and Disaster Recovery plan. Moreover, to reduce the risk of interruption to our operations and to assure the restoration of critical computerized processes within pre-set time intervals in emergency situations, we have developed sites and technological infrastructures that can ensure the continuity of our business operations, backup systems and connections and systems for the protection of our corporate networks.

Business of Magellan

Magellan operates in a niche market and offers non-standard products and services in the following segments: (i) overdue debt position financing and debt management, (ii) liquidity management and (iii) investment and equipment financing. Magellan has long term relationships with clients in Eastern Europe, and especially in Poland, including certain multinational groups in the healthcare sector to whom we already provide services in Italy, Spain and Portugal, and is their reference partner for alternative financing solutions.

As of December 31, 2016, the Magellan Group's new business amounted to €426 million. The breakdown of the new business according to geographic region is as follows: around €365 million in the Polish market (85% of total), around €41 million in the Slovakian market (10% of total), around €12 million in the Spanish market (3% of total) and around €8 million in the Czech market (2% of total).

As of December 31, 2015, and March 31, June 30, September 30 and December 31 of 2016, the Magellan Group had 161, 163, 168, 173 and 184 employees, respectively.

The following tables set forth the primary economic and shareholder information for the Magellan Group as of December 31, 2015 and 2016.

	As of December 31			
	2016	2015	Changes amount	% change
	(in € millions)			
Total assets	463	413	50	12.1%
Shareholders' equity	89	82	7	8.5%
Revenues	37	39	(2)	(5.1)%
Net profit (loss)	**7**	**10**	**(3)**	**(30)%**

Note: the figures have been converted into Euros using the average exchange rate for 2016 and 2015 of Zloty/€ 4.3632 and 4.18412 respectively. Shareholder data has been converted into Euros using the exchange rate as of December 31, 2016 and 2015 of Zloty/€ 4.4102 and 4.2639 respectively.

The profit recorded for the Magellan Group as of December 31, 2016, net of non-recurring costs (which were mainly due to the *waiver* and Magellan Acquisition), was equal to €9.6 million. In particular, the adjusted net profit for the third and fourth quarters of 2016 was equal to €2.6 million and €2.4 million, respectively.

Magellan's credit portfolio as of December 31, 2016 was equal to €447 million, an increase on the €387 million recorded as of December 31, 2015.

Overdue debt position financing and debt management

Magellan cooperates with both parties of the supply or services agreements on the healthcare market, namely suppliers and buyers. On the one hand, Magellan offers to suppliers factoring (receivables assignment) and factoring-like products and clears any overdue debt position. On the other hand, Magellan grants medium and long-term loans to public healthcare providers to allow them to pay any overdue debt.

Non-recourse factoring

Magellan purchases overdue receivables from suppliers of independent public healthcare centers controlled by public authorities ("**Centers**") and/or non-public healthcare centers ("**Private Hospitals**", and together with Centers, "**Healthcare Providers**"). Where receivables are due from Centers, the assignment contracts are conditional on the Center's founding body's consent to the assignment.

Magellan is in charge of financing the receivables and carrying out management and collection services. In addition, Magellan normally carries out receivables assignment on a non-recourse basis and will assume the risk of non-payment by the debtor. Magellan allows customers to extend their commercial loan beyond the due date of the invoice.

The profit of Magellan consists in commission or a discount on the purchase price of the receivables, and also in interest accruing on the receivables.

Factoring-like products

Magellan offers factoring-like products where it is not possible to obtain the consent of a Center's founding body.

Magellan provides financing to suppliers of Centers and/or Private Hospitals, and manages their receivables in return for a commission. The "professional proxy" (i.e. the legal office in Magellan's group) collects the receivables directly from Healthcare Providers on behalf of suppliers.

Magellan's group assumes all risks connected with the receivables, as well as the obligation to finance them, and must pay the relevant supplier even if it fails to recover the receivables. After acquiring the receivables, Magellan will enter into an agreement with the original debtor (i.e. the Healthcare Provider) setting out the terms and deadlines for repayment.

Magellan's profit consists in the commission due from the supplier and interest on the receivables due from the Healthcare Provider pursuant to the agreement entered into with them.

Debt restructuring and acquisition

Magellan undertakes to repay a Healthcare Provider's due and payable debt vis-à-vis its creditor(s). In return, the Healthcare Provider agrees that Magellan will become its creditor and that the interest under the relevant debt will be capitalized and undertakes to repay the debt (with interest) in instalments, and to pay a restructuring fee.

If the contract is entered into with a Center, the Center is required to confirm that it has obtained its founding body's consent to the change of creditor.

Refinancing of liabilities

At the request of a buyer (e.g a hospital), Magellan repays the buyer's liabilities vis-à-vis a supplier. Following repayment of the liabilities, Magellan becomes the buyer's creditor and acquires all of the rights in the receivables. Magellan's profit consists in the commission received from the buyer, as well as interest.

Long and medium-term loans

Magellan grants loans (in tranches) to Centers, Private Hospitals and municipalities. Borrowers undertake to repay the loan together with interest in instalments. Magellan also receives a commission.

Liquidity management

Magellan offers liquidity management services to operators on the healthcare and local government units ("**LGU**") markets to cover their short-term liquidity problems or secure their short-term cash positions.

Factoring involving receivables which have not yet matured for suppliers of LGU

Suppliers of LGU transfer receivables which have not yet matured to Magellan pursuant to an assignment contract.

The profit of Magellan consists in commission or a discount on the purchase price of the receivables.

Revolving loans for hospitals

Magellan grants revolving loans (with a total limit and limit per tranche, tranches paid on demand and repaid within agreed deadlines) and overdraft loans (with a total limit which can be freely drawn and repaid during the loan period) to Healthcare Providers, LGUs, or other private entities (including suppliers), and borrowers undertake to repay the loans on agreed terms. In certain cases, in addition to interest/commission on drawn tranches, Magellan is also entitled to a commission on execution of the loan agreement.

Consortium for suppliers of Centers

Magellan enters into framework contracts with suppliers of Centers, pursuant to which the parties undertake to cooperate in public procurement proceedings announced by Centers, including in the context of a consortium (represented either by Magellan or by a supplier *vis à vis* the Center).

Where the supplier is entitled to receive all or part of a payment from the Center:

- the supplier declares to the Center that it remits all payments due to it from the Center to Magellan (and the Center is required to accept the remittance) and that such payments made to Magellan will satisfy the supplier's receivables against the Center; or
- the supplier undertakes to forward all payments received to Magellan.

In its judgment on June 2, 2016, the Polish Supreme Court ruled that a consortium agreement should only be agreed upon for the mutual execution of the parties' obligations and not for one of the parties to acquire rights to the receivables. The judgment points out that such agreements may be in violation of Article 54 of the Act on Healthcare Activities, therefore making the transfer of receivables invalid.

See "*Risk Factors—Risk Related to Our Business—Certain products provided by Magellan were invalidated by the Polish Supreme Court*".

Sales of promissory notes

Magellan also finances Centers through promissory notes. Centers issue promissory notes for certain amounts, and Magellan acquires these at a certain price. If Magellan has existing receivables due from the Center, it sets them off against the Center's receivable due from Magellan for the issue of a promissory note.

Guarantees

Magellan offers products collectively referred to as "Guarantees". Through these Guarantees, Magellan agrees to secure or pay suppliers' receivables due from Centers. As a result of paying a Center's debt to suppliers, by law Magellan acquires the supplier's receivables against the Center.

On January 9, 2015, the Polish Supreme Court held in one case that the Guarantee product was invalid on the grounds that the aim of the Guarantee was to change the Center's creditor from the supplier in question to Magellan and therefore the transfer of the receivable to Magellan itself was invalidated; this was ruled to be in contravention of Article 54 of the Act on Healthcare Activities. After the Polish Supreme Court's ruling, the legal status of the receivable reverted to the original owner and therefore, such supplier's receivable against the Center legally remains unpaid because Magellan's payment under the Guarantee is no longer recognized. Under arrangements made between Magellan and the supplier in question, the supplier's receivable will be used to satisfy Magellan's claim against the supplier for the return of payment originally made under the Guarantee.

Magellan filed motions in 2015 with a Polish Constitutional Tribunal regarding the constitutionality of Article 54 of the Act on Healthcare Activities. However, considering the legal uncertainties regarding the article in general, particularly following the unfavorable ruling mentioned above, uniform Polish Supreme Court practice and the uncertainties regarding claims to the Polish Constitutional Tribunal, Magellan has had to reformulate this product so that it is permissible under Article 54 of the Act on Healthcare Activities.

See "*Risk Factors—Risks Related to Our Business—Certain products provided by Magellan were invalidated by the Polish Supreme Court*".

Ancillary services

Magellan also offer ancillary services including recourse factoring for small and medium-sized enterprises.

Investment and equipment financing

The investments and equipment financing of healthcare providers is carried out by Magellan's wholly owned subsidiary MEDFinance.

MEDFinance closely cooperates with suppliers or sellers on the healthcare market and helps healthcare providers (both public and private) finance their development (equipment and infrastructure). In this context, MEDFinance offers the following services: (i) instalment sales; (ii) leasing; (iii) consortium (with equipment suppliers and infrastructure contractors) and (iv) sales and parallel loans.

Magellan had a Spanish subsidiary, with offices in Barcelona (Spain), Carrier Mestre Nicolau, 19, established at the end of 2014. Such a subsidiary aimed to operate in the field of non-recourse factoring of receivables claimed towards entities of the Spanish Public Administration.

Key economic indicators

The table below shows the main economic indicators related to the business segments in which Magellan and its subsidiaries operate as of December 31, 2015 and 2014.

	As of December 31					
	2015			2014		
	Magellan(1)	Med-finance(2)	Foreign Markets(3)	Magellan(1)	Med-finance(2)	Foreign Markets(3)
	(in € thousands)					
Acquired on-balance sheet assets	311,933	38,703	56,253	329,795	34,452	435,125
Portfolio	306,023	63,980	66,480	281,405	58,358	39,999
Revenues	26,473	5,467	4,818	30,924	4,164	3,311
Net profit	7,548	1,470	1,270	10,349	888	786

(1) Includes past due debt collection and debt management, cash management activities in Poland.

(2) Includes financing business investment and the purchase of medical equipment.

(3) Includes recovery activities of past due loans and debt management, cash management activities in Slovakia and Czech Republic.

Acquired on-balance sheet assets for the year ended December 31, 2015 amounted to €406,889 thousand, an increase from €799,372 thousand as of December 31, 2014. The increase in acquired on-balance sheet assets was mainly due to the development of foreign subsidiaries with higher value of assets acquired in the Slovakian market.

The Magellan Group's portfolio for the year ended December 31, 2015 was €436,483 thousand, an increase from €379,762 thousand for the year ended December 31, 2014. The increase in portfolio value at the year-end was mainly due to higher demand for long-term financing.

Revenue for the year ended December 31, 2015 was €36,758 thousand, a decrease from €38,399 thousand for the year ended December 31, 2014. The decrease in revenue was mainly due to lower portfolio profitability as a result of a decrease in statutory interest by 5 percentage points in Poland.

The net profit (loss) for the year ended December 31, 2015 was €10,288 thousand, a decrease from €11,996 thousand for the year ended December 31, 2014. The net profit decrease was due to lower revenues and a higher cost of funding.

Our Markets

We carry out our Traditional Activities in Italy, Spain and Portugal (in particular, providing Credit Collection Management services in Italy and Spain and Non-Recourse Factoring services in Italy, Spain and Portugal), while Magellan conducts its business (in particular, overdue debt position financing and debt management, liquidity management and investment and equipment financing) in Poland, Slovakia and, to a lesser extent, in Czech Republic and Spain.

Breakdown by geographical area

The following table shows the total receivables acquired by us, as well as those solely relating to our Non-Recourse Factoring business (in both cases, also divided by country), for the years ended December 31, 2016, 2015 and 2014, respectively.

	As of December 31,		
	2016	**2015**	**2014**
	(in € millions)		
Total Receivables	5.8	6.3	5.5
Italy	5.5	5.8	5.1
Spain	0.4	0.5	0.3
Portugal	0.1	0.1	0.0
Only Non-Recourse Factoring Receivables	3.0	3.0	2.5
Italy	2.6	2.5	2.2
Spain	0.3	0.4	0.3
Portugal	0.1	0.1	0.0

The following table shows our total collections as well as those solely relating our Non-Recourse Factoring business (in both cases, the total amounts and the amounts divided by country), as of December 31, 2016, 2015 and 2014, respectively.

	As of December 31,		
	2016	**2015**	**2014**
	(in € millions)		
Collections	6.3	5.5	5.2
Italy	5.8	5.0	5.1
Spain	0.4	0.5	0.1
Portugal	0.1	0.1	0.0
Only Non-Recourse Factoring Collections	3.0	2.5	2.2
Italy	2.6	2.0	2.0
Spain	0.4	0.5	0.1
Portugal	0.1	0.1	0.0

The following tables show, with reference to Traditional Activities, the breakdown of our volumes, receivables purchased and the outstanding (management accounts), excluding Magellan, related to the business of non-recourse factoring, broken down by debtor category and geographical area, for the years ended December 31, 2016, 2015 and 2014.

	As of December 31, 2016			As of December 31, 2015			As of December 31, 2014		
	Volumes	Receivables purchased	Outstanding (management accounts)	Volumes	Receivables purchased	Outstanding (management accounts)	Volumes	Receivables purchased	Outstanding (management accounts)
					(in € thousands)				
Italy	**5,476,782**	**2,606,116**	**1,838,613**	**5,764,216**	**2,481,156**	**1,797,015**	**5,085,095**	**2,161,323**	**1,271,491**
National Healthcare System	4,472,986	1,726,125	877,262	4,550,826	1,512,774	951,243	4,423,865	1,804,930	1,012,464
Public Debtors	893,701	826,393	924,691	1,102,277	939,586	824,665	580,652	344,872	250,331
Other	110,095	53,598	36,660	111,113	28,796	21,107	80,578	11,521	8,696
Spain	**351,266**	**345,554**	**139,457**	**467,170**	**449,590**	**183,434**	**336,261**	**310,938**	**250,698**
National Healthcare System	262,974	257,263	117,409	412,596	395,016	142,210	308,350	283,027	227,699
Public Debtors	88,292	88,291	22,048	54,574	54,574	41,224	27,911	27,911	22,999
Portugal	**51,137**	**51,137**	**39,030**	**55,028**	**55,028**	**28,392**	**29,365**	**29,365**	**27,228**
National Healthcare System	51,137	51,137	39,030	55,028	55,028	28,392	29,365	29,365	27,228
Total	**5,879,185**	**3,002,807**	**2,017,100**	**6,286,414**	**2,985,774**	**2,008,841**	**5,450,721**	**2,501,626**	**1,549,417**

The tables below show the intermediation margin related to Traditional Activities and, for the financial year 2016, Magellan activities net of intercompany items, broken down by geographical area in which we operate, for the years ended December 31, 2016, 2015 and 2014, prepared on the basis of management data processed by management.

	For the year ended December 31, 2016					
	Italy	Spain	Portugal	Poland	Czech Republic	Slovakia
			(in € thousands)			
Interest income and similar revenues	150,816	14,934	3,089	16,978	201	4,208
Interest expenses and similar expenses	(15,534)	(5,814)	(764)	(7,202)	(103)	(1,603)
Net interest margin	**135,282**	**9,120**	**2,325**	**9,776**	**98**	**2,605**
Net fees and commissions	4,493	145	—	(1,283)	—	—
Dividends				60		
Gain and losses on financial assets and liabilities held for trading	489	—	—	193	—	—
Fair value adjustments in hedge accounting	(1)				—	—
Gains (Losses) on disposal and repurchase of available-for-sale financial assets	706	—	—			
Operating income	**140,969**	**9,265**	**2,325**	**8,746**	**98**	**2,605**

	For the year ended December 31, 2015			For the year ended December 31, 2014		
	Portugal	Italy	Spain	Portugal	Italy	Spain
			(in € thousands)			
Interest income and similar revenues	4.811	138,502	18,633	1,070	244,093	7,388
Interest expenses and similar expenses	(970)	(24,092)	(3,836)	(240)	(41,677)	(2,323)
Net interest margin	**3.841**	**114,410**	**14,797**	**830**	**202,416**	**5,065**
Net fees and commissions	—	7,699	244	—	8,101	138
Dividends						
Gain and losses on financial assets and liabilities held for trading	—	46	—	—	497	—
Fair value adjustments in hedge accounting	—	(23)	—	—	(7)	—
Gains (Losses) on disposal and repurchase of available-for-sale financial assets	—	872	—	—	953	—
Operating income	**3.841**	**123,004**	**15,041**	**830**	**211,960**	**5,203**

For further information on the risk-weighted assets and the average weighting of our outstanding, excluding Magellan, related to non-recourse factoring referred to Traditional Activities, broken down by geographical area see "*Selected Statistical Information—Interest rate data—Net Changes in interest income and expenses—Volume and rate analysis*".

Italy

In Italy, the receivables we manage and acquire as part of our Non-Recourse Factoring business are due mostly from: (i) the Italian national healthcare system composed of: local healthcare authorities ("**ASLs**") and public hospital trusts ("**AOs**"); (ii) the Italian public administration (the "**Italian Public Administration Debtors**") and, to a lesser extent, (iii) private entities (including religious organizations) active in the healthcare sector ("**Other Italian Debtors**").

As of December 31, 2014, 2015 and 2016, respectively, we had 103, 123 and 192 customers in Italy and 1,685, 5,741 and 6,688 debtors.

The following table indicates the total amount of receivables and the amount of receivables purchased as part of our Non-Recourse Factoring activities for the years ended December 31, 2016, 2015 and 2014, divided by Italian Public Healthcare Debtors, Italian Public Administration Debtors, Italian Tax Authorities and Other Italian Debtors.

	As of December 31,		As of December 31,		As of December 31,	
	2016	%	2015	%	2014	%
	(in € millions, except percentages)					
Receivables	**5,477**	**100%**	**5,764**	**100%**	**5,086**	**100%**
Italian Public Healthcare Debtors	4,473	82%	4,551	79%	4,425	87%
Italian Public Administration Debtors	894	16%	1,102	19.1%	581	11.4%
Italian Tax Authorities	135	2.4%	25	0.4%	—	—
Other Italian Debtors	110	2%	111	1.9%	80	1.6%
Only Non-Recourse Factoring Receivables	**2,606**	**47.6%**	**2,481**	**43%**	**2,162**	**42.5%**
Italian Public Healthcare Debtors	1,726	31.5%	1,513	26.2%	1,806	35.5%
Italian Public Administration Debtors	826	15%	940	16.3%	345	6.8%
Italian Tax Authorities	135	2.4%	25	0.4%	—	—
Other Italian Debtors	54	1%	29	0.5%	11	0.2%

As part of our Credit Collection Management business, we are strategically positioned as an intermediary between clients and debtors in the healthcare and public administration sectors in Italy and perform a high value-added service for clients considering the lengthy payment times.

In 2016, we intermediated in Italy (by providing both Non-Recourse Factoring and Credit Collection Management services) receivables totaling €5.5 billion, of which 4.5 billion relate to receivables due from the Italian national healthcare system. In 2016, the forecasts for public finance included in the 2016 DEF estimate that the total expenditure on goods and services of the public sector in Italy will amount to €131.7 billion, of which €31.5 billion in relation to the Italian national healthcare system and €100.2 billion in relation to the Italian public administrations (*Source: Italian Ministry of Economy and Finance*). Based on published market data, in 2015 total expenditure on goods and services of the public sector in Italy amounted to €133 billion, of which €31 billion related to total expenditure on goods and services of the Italian national healthcare system and €102.1 billion related to total expenditure on goods and services of other Italian public administrations (*Source*: *Italian Ministry of Economy and Finance*).

Suppliers of the Italian national healthcare system and public authority resort to our Credit Collection Management and Non-Recourse Factoring services as a result of, *inter alia*, payment delays and other unique characteristics of the public sector. In particular, the administrative complexity of the public sector includes very technical assessment and assignment procedures and specific public spending financing.

Credit Collection Management in Italy

The Credit Collection Management services that we offer in Italy cover the entire invoice life cycle (from the creation of the receivables by electronic invoice until collection) and consist of: (i) the prior verification of receivables managed (such as the verification of receivables contested by debtors), (ii) performance of credit recovery activities, both in court and out of court, from issuing reminders to taking legal action, (iii) the accounting of collections through our "Expert" system and transfer of amounts to the client according to the contractual agreements in place between the parties, (iv) e-invoicing and storage and (v) the performance of certain ancillary activities, such as the transmission of update reports or the certification of client receivables due from the Italian public administration on the platform of the Italian Ministry of Economy and Finance.

The table below indicates the total volume of receivables managed by us in Italy and total collections, as well as those solely relating to our Credit Collection Management business, performed in the years ended December 31, 2016, 2015 and 2014, respectively.

	As of December 31,					
	2016		2015		2014	
	(in € millions) %					
Total receivables of which	**5,477**	**100%**	**5,764**	**100%**	**5,086**	**100%**
Credit Collection Management	2,871	52.4%	3,283	57%	2,924	57.5%
Total collections of which	**5,836**	**100%**	**4,931**	**100%**	**5,074**	**100%**
Credit Collection Management	2,564	43.9%	2,975	60.3%	3,017	59.5%

Non-Recourse Factoring in Italy

On the Italian market, through our Non-Recourse Factoring activities we acquire from our clients, which are suppliers of the Italian public administration, receivables due from Italian Public Healthcare Debtors, Italian Public Administration Debtors and Other Italian Debtors.

The Maturity Commissions that we receive from our clients are determined on the basis of (i) the past trends of the relevant debtors who owe the assigned receivables, (ii) the quality of the portfolio transferred by the client and (iii) the current and future cost of funding necessary for the performance of our activities.

For the year ended December 31, 2016, in Italy the Group recorded €163.2 million in Maturity Commissions and late payment interest in our balance sheet. Late payment interest represents a significant source of income for us. In Italy, the late payment interest is regulated by Italian Legislative Decree No. 231 of October 9, 2002, in implementation of Directive 2000/35/EC, and Italian Legislative Decree No. 192 of 2012, in implementation of Directive 2011/7/EU, on combating late payment in commercial transactions. As of the date of this Offering Circular, the statutory interest rate is equal to 8% above the ECB's reference rate.

The amount of late payment interest accrued and legally due to us, but not already collected, in relation to purchased non-recourse receivables in Italy was equal to €484 million, €415 million and €407 million, for the years ended December 31, 2016, 2015 and 2014, respectively. In 2016 part of the late payment interest fund, equal to €168 million, was transferred to our income statement, in addition to €27 million transferred as of December 31, 2015.

The following table indicates the amount of receivables acquired, collected, and acquired but not yet collected (outstanding receivables) as part of our Non-Recourse Factoring activities in Italy, for the years ended December 31, 2016, 2015 and 2014, respectively.

	As of December 31, 2016	**As of December 31, 2015**	**As of December 31, 2014**
		(in € millions)	
Non-Recourse Purchases	2,606	2,481	2,162
Non-Recourse Factoring Collections	2,564	1,956	2,057
Non-Recourse Factoring Outstanding receivables	1,839	1,797	1,271

Our Non-Recourse Factoring volumes in Italy as of December 31, 2015 take into account the introduction of Split Payment Mechanism legislation.

Since 2014 in Italy the Company has been operating in Non-Recourse Factoring purchasing receivables from public entities involved in an insolvency proceeding and/or restructuring, as well as receivables from public entities that could be subject to these procedures in future or public entities subject to the administrative compulsory winding up procedure, acquiring impaired assets at the purchasing date. As of December 31, 2016 and December 31, 2015 the Company collected purchases of the above mentioned receivables for an amount equal to respectively €492 thousand and €743 thousand.

Non healthcare segment

In addition to the healthcare sector, where we already have a competitive advantage thanks to our level of specialization, we have increased the volumes of managed and purchased receivables in other public administration segments as well. In particular, in 2016 we decreased purchases of receivables due from the non-healthcare segments of the public administration by 12% compared to 2015. We consolidated and increased our penetration into the sector of receivables owed by the national healthcare system with an increase in receivables purchased equal to 14% in 2016 compared to 2015. As a result of such increase, the volumes of purchased receivables due from non-healthcare public administration segments increased from 15% in 2014 to 32% in 2016; while the volumes of purchased receivables due from the national healthcare services increased from 61% in 2015 to 66% in 2016.

Spain

In Spain, our activities are carried out by Farmafactoring España and mainly involve Non-Recourse Factoring and Credit Collection Management of receivables due to our clients from the Spanish healthcare system, municipalities and other public sector entities, whose ultimate debtors are the 17 autonomous regions of Spain (each a "***Comunidad***" and, jointly, the "***Comunidades***"), and the central and regional public administration, whose ultimate debtors are the Spanish state or the *Comunidad*, as applicable.

As of December 31, 2015 and 2016, Farmafactoring España carried out its business with, respectively 49 and 59 customers and with 171 and 146 Debtors.

The table below indicates the amount of our receivables, with a specific indication of the receivables purchased as part of our Non-Recourse Factoring activities in Spain, for the years ended December 31, 2016 and 2015, respectively, divided by Spanish Public Healthcare Debtors, Spanish Public Administration Debtors and Other Spanish Debtors.

	As of December 31,		As of December 31,		As of December 31,	
	2016	**%**	**2015**	**%**	**2014**	**%**
	(in € millions, except percentages)					
Receivables	**351**	**100%**	**467**	**100%**	**336**	**100%**
Spanish Public Healthcare Debtors	263	74.9%	413	88.2%	308	91.7%
Spanish Public Administration Debtors	88	25.1%	55	11.8%	28	8.3%
Other Debtors	—	0%	—	0%	—	0%
Only Non-Recourse Factoring Receivables	**346**	**100%**	**450**	**96.4%**	**311**	**92.6%**
Spanish Public Healthcare Debtors	257	74.2%	395	84.6%	283	84.2%
Spanish Public Administration Debtors	88	25.4%	55	11.8%	28	8.3%
Other Debtors	—	0%	—	0%	—	0%

The Spanish healthcare services and public administration, similarly to Italy, are characterized by lengthy payment times and administrative complexities. This allows us to replicate in Spain the Credit Collection Management and Non-Recourse Factoring activities that we perform in Italy through Farmafactoring España, which is strategically positioned as an intermediary between Spanish clients and debtors.

In Spain, we use a process aimed at ensuring *conformidad* (compliance/validation of the invoice) of the invoice with debtors' accounts: with regards to smaller clients with a higher credit risk, we generally carry out our Non-Recourse Factoring activities only if there is *conformidad*, which confirms the existence of the receivable and eliminates the risk of its re-assignment. In addition, since the receivable verification process is simplified by the centralization of payments at *Comunidad* or central administration level, as the case may be, and the receivable certification process described above, in Spain we are able to perform the receivable verification activities on our own without the assistance of external agencies.

In 2015, Spanish public entities spent €56.4 billion on goods and services, of which €15.3 billion related to goods and services for the public healthcare (*Source*: *Ministerio de Sanidad, Servicios Sociales y Igualidad*). According to the forecast for 2016, public spending in Spain on goods and services will be equal to €54.8 billion, of which €15.7 billion related to goods and services for the public healthcare (*Source*: *Actualizacion del Programa de Estabilidad 2016-2019-Kingdom of Spain*).

Credit Collection Management in Spain

The Spanish market, whilst still having administrative complexities, has fewer than the Italian market, mainly due to the Spanish Government's adoption of a system involving the certification of receivables due from Spanish debtors. Therefore, there is a lower demand in Spain for our Credit Collection Management services.

The following table indicates our total volumes of receivables and the volumes of receivables managed as part of our Credit Collection Management activities, as well as our total collections and collections in the context of our Credit Collection Management activities, recorded in Spain in the years ended December 31, 2016, 2015 and 2014, respectively.

	As of December 31,		As of December 31,		As of December 31,	
	2016	**%**	**2015**	**%**	**2014**	**%**
	(in € millions, except percentages)					
Total receivables of which	**351**	**100%**	**467**	**100.0%**	**336**	**100.0%**
Credit Collection Management	*5.7*	*1.6%*	17	3.6%	25	7.4%
Total collections of which	**408**	**100%**	**537**	**100.0%**	**121**	**100.0%**
Credit Collection Management	*17*	*4.2%*	20	3.7%	13	10.7%

Non-Recourse Factoring in Spain

We carry out our Non-Recourse Factoring activities in Spain through Farmafactoring España mainly for Suppliers, who are often already our clients in Italy.

The Maturity Commissions we receive from our clients are determined on the basis of (i) historical payment trends of Debtors owing the receivables, (ii) quality of the portfolio assigned by our clients and (iii) actual and expected cost of funding needed in order to perform our activities. For the year ended December 31, 2016, Farmafactoring España recorded in its balance sheet €16 million in Maturity Commissions and late payment interest. Late payment interest represents for us a significant income component.

In Spain, the late payment interest rate is regulated by Directive 2011/7/EU, implemented by Spanish Decree Law No. 4/2013 and is equal to 8% above the ECB's reference rate.

The amount of late payment interest accrued and legally due to us, but not already collected, in relation to purchased non-recourse receivables (in our late payment interest fund) in Spain was equal to €51million, €37 million, €17 million for the years ended December 31, 2016, 2015 and 2014, respectively. In 2016, part of the late payment interest fund, equal to €17 million, was transferred to our income statement.

The following table indicates the amount of receivables acquired, collected, and acquired but not yet collected (outstanding receivables) as part of our Non-Recourse Factoring activities in Spain, for the years ended December 31, 2016, 2015 and 2014, respectively.

	As of December 31, 2016	As of December 31, 2015	As of December 31, 2014
		(in € millions)	
Non-Recourse Purchases	346	450	311
Non-Recourse Factoring Collections	391	517	108
Non-Recourse Factoring Outstanding receivables	139	183	251

In 2016 we decreased by 24.8%, with our receivables decreasing from €467 million in 2015 to €351 million in 2016.

Our market share has gradually increased, meaning that we have consolidated our market leadership among market players specialized in the sale of non-recourse receivables purchased in 2014 (*Source*: elaborated on the basis of data of Asociación Española de Factoring ("**AEF**") and the publicly available financial statements of IOS Finance). We can take advantage of the skills we have acquired in the Italian market and our broad client base that in many cases also operates in Spain, and we pursue in Spain a strategy which is aimed at replicating our Italian business model, by becoming a business partner in the management and purchase of receivables due to suppliers from the national healthcare service and the public administration.

Portugal

Since obtaining Bank of Italy's confirmation to have no objections in this respect on April 23, 2014, we have operated directly, on a cross-border basis under the freedom to provide services, as well as (since December 1, 2016) through services rendered by Farmafactoring España in respect to the commercial part, on the Portuguese market for the Non-Recourse Factoring of receivables due to clients from the Portuguese healthcare system and, more specifically, from public hospitals ("**SPA**") and public entities operating in the healthcare sector ("**EPE**"). These authorities are funded directly by the Portuguese central government.

Our Non-Recourse Factoring activities in Portugal are managed by one of our business units, whose tasks include the operational activity aimed at purchasing receivables, management and collection thereof (they mainly include sending payment reminders and taking legal action), whereas, in carrying out our activities, we rely on the activities of our Spanish branch and on the commercial network of Farmafactoring España as a channel for direct business acquisitions and distribution of offered services.

As of December 31, 2015 we had 9 customers and 44 debtors in Portugal. As of December 31, 2016, we had 11 customers and 45 debtors. With regard to the seasonality of the business which has its maximum concentration of operation in the last quarter of the year, the comparison between customers number in 2016 and those in the foregoing years is not material.

The volumes of new receivables managed and receivables purchased on a non-recourse basis in Portugal totaled €51million in the year ended December 31, 2016.

Similarly to Spain, in Portugal we use a receivable payment process that ensures the conformity of invoices with debtors' accounts, including systems for: (i) the assumption of debt by the relevant debtor at the time of allocation of the budget (*numero de cabimento*, in the presence of which it is assumed that purchases are legitimate as set forth in the budget) and (ii) the identification of all documents that, from a financial, legal and administrative point of view, conform to and are certified as debt owed by the relevant debtor (*numero de compromiso*). Pursuant to certain types of contracts, the "*numero de compromiso*" must appear on the order, in the absence of which there will be less certainty surrounding the receivable with an increased counterparty risk in respect of debtors.

In 2014, the annual expenditure of the Portuguese public healthcare sector amounted to approximately €10.4 billion, of which approximately €2.3 billion related to expenditure on goods and services (*Source*: Instituto Nacional de statistica-Portugal).

Portugal implemented Directive 2011/7/EU on combating late payment in commercial transactions through Decree Law 62/2013, which established that the new late payment interest rate (equal to 8% above the ECB's reference rate) would apply to the Portuguese healthcare service from January 1, 2016. Until December 31, 2015 the applicable late payment interest rate for the Portuguese healthcare service under Decree Law 32/2003 (implementing Directive 2000/35/EC) was equal to 7% above the ECB's reference rate.

Late payment interest constitutes a significant part of our income. In the year ended December 31, 2016, we recorded in our income statement €3.2million in Maturity Commissions and late payment interest in Portugal.

The amount of late payment interest accrued and legally due to us, but not already collected, in relation to purchased non-recourse receivables (in our late payment interest fund) in Portugal was equal to €11 million and €8 million for the years ended December 31, 2016 and 2015, respectively. In 2016, part of the late payment interest fund, equal to €1 million, was transferred to our income statement, in addition to approximately €2 million transferred as of December 31, 2015.

The following table indicates the amount of receivables acquired, collected, and acquired but not yet collected (outstanding receivables) as part of our Non-Recourse Factoring activities in Portugal, for the years ended December 31, 2016, 2015 and 2014, respectively.

	As of December 31, 2016	As of December 31, 2015	As of December 31, 2014
		(in € millions)	
Non-Recourse Purchases	51	55	29
Non-Recourse Factoring Collections	40	54	2
Non-Recourse Factoring Outstanding receivables	39	28	27

Although we only began operating in the Non-Recourse Factoring sector in April 2014, we have already acquired receivables amounting to over €55 million. During 2015 we grew by 87.4% and established our position as market leader, as we are the sole specialized market player (*Source: Factor Chain International*). As of December 31, 2016, our receivables amounted to approximately €51million.

Poland

The Magellan Group operates primarily in three sectors: (i) financing of suppliers' operating capital, (ii) financing of current and future receivables and (iii) financing of investments in the public and healthcare sectors. In particular, Magellan is a leading operator in the market providing financial services to companies in the healthcare sector and to the suppliers of the public administration in Poland (source: management analysis of direct competitor public information).

Magellan entered into a cooperation and management agreement with the closed-end fund Skarbiec-Zdrowia FIZ-AN, pursuant to which Magellan collects receivables acquired by the fund.

Magellan, in order to expand its activities into Western Europe, established at the end of 2014 a branch in Spain, Magellan S.A Corporativa, Sucursal en España. Through its Spanish branch, Magellan carried out non-recourse factoring of receivables due from the Spanish public administration and credit management. Furthermore, Magellan's Spanish branch granted financing for the purchase of medical equipment. The new Spanish business of Magellan will be carried out directly by Farmafactoring España and that, as of the date of this Offering Circular, the outstanding credit portfolio has been transferred from Magellan Spanish branch to Farmafactoring España. Following this agreement, we are completing the closure of the Spanish branch of Magellan so that the Spanish operations of the Group will be unified under Farmafactoring España.

The Magellan Group consists of the following companies (in addition to Magellan):

- MEDFinance S.A., a Polish joint-stock company wholly owned by Magellan. It provides public and private healthcare entities with the opportunity to acquire receivables in support of their investments and funding for the replacement and purchase of new medical equipment giving access to modern forms of financing by offering financial services for the supply of medical equipment, in particular by way of factoring, financial leasing and consumer credit;
- DEBT-RNT sp. z o.o., a Polish limited liability company wholly owned by Magellan operating in the field of debt restructuring;
- Magellan Česká republika s.r.o., a Czech limited liability company wholly owned by Magellan. It grants Czech healthcare entities and their suppliers access to financing, in particular by providing factoring services, including the factoring of receivables, and granting loans and guarantees;
- Magellan Central Europe s.r.o., a Slovakian limited liability company wholly owned by Magellan. It partners with Slovakian healthcare entities and their suppliers by providing financial services, including the factoring of receivables, and granting loans and guarantees. Magellan Central Europe s.r.o. has a branch in the Czech Republic with registered office in Brno and was incorporated in 2016; and
- Municypalny Fundusz Inwestycyjny Zamknięty, a closed-end fund of which Magellan owns 100% of the issued financial instruments.

In addition, the law firm Kancelaria Prawnicza Karnowski i Wspólnik spółka komandytowa located in Łódź (Poland), incorporated as a limited partnership, and Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspólnik spółka komandytowa spółka komandytowa located in Łódź (Poland), incorporated as a limited partnership are affiliated entities of the Magellan Group.

As of December 31, 2016, Poland represented the principal market for the business of the Magellan Group accounting for approximately 85% of the total purchased assets. The markets in which the Magellan Group operates, other than the Polish market, account approximately for the remaining 15% (Slovakia for 10%, Spain for 3% and Czech Republic for 2%).

The following table shows the main economic and financial indicators of the Magellan Group for the years ended December 31, 2016 and 2015 respectively.

	As of December 31, 2016	**As of December 31, 2015**
	(in € millions)	
Total assets	463	413
Equity	89	82
Revenues	37	39
Operating costs	11	8
Operating income	8	12
Net results	7	10

As of June 30, 2016, Poland represented the principal market, accounting for approximately 80% of the total purchased assets. The markets in which the Magellan Groups operates different from the polish one account approximately for the remaining 20% quota (Slovakia for 12%, Spain for 6% and Czech Republic for 2%). The cost of funding for the Magellan Group, as of June 30, 2016, is equal to 4.6% (of which 22% denominated in Euro and 78% in PLN). Similarly, as of December 31, 2015 Poland represented the principal market, accounting for approximately 82% of total purchased assets. The segment of receivables towards health facilities in Poland corresponded to 59% of the total (while in 2014 it accounted for the 65%).

Net result adjusted as of December 31, 2016 is equal to about €9.6 million taking into consideration non-recurring costs and expenses concerning the waiver on mBank Bond and the tender offer completed by the Company on the share capital of Magellan.

The Magellan Group total assets amounted to PLN 2,041 million and PLN 1,760 million as of December 31, 2016 and 2015, respectively (approximately €463 million and €413 million, respectively), while equity was equal to PLN 391 million and PLN 350 million as of December 31, 2016 and 2015 (approximately corresponding to €88.7 million and €82.1 million), respectively.

The information related to fiscal year 2015 has been extracted from the Magellan 2015 Annual Consolidated Financial Statements of the Magellan Group for the year ended December 31, 2015.

The information related to fiscal year 2016 has been extracted from the Magellan 2016 Annual Consolidated Financial Statements of the Magellan Group for the year ended December 31, 2016 audited by PricewaterhouseCoopers Sp. z o.o. that issued its audit report on March 8, 2017.

Funding

With regards to the entire cycle of the Non-Recourse Factoring activity, we fund the acquisition of our receivables portfolio through a combination of: (i) committed or irrevocable credit facilities including bilateral bank loans issued by individual credit institutions; (ii) revocable credit facilities granted by credit institutions; (iii) structured finance transactions secured by transfers of receivables to securitization vehicles and factoring facilities and/or collaboration agreements with factoring companies; (iv) capital markets funding, for example, through the issuances of the €300 million bond in June 2014 and €150 million bond in June 2016; (v) collection of savings from the public in Italy, Spain and Germany through our Online Deposits; (vi) interbank market; (vii) REPO refinancing operations using the MTS platform guaranteed by Cassa di Compensazione e Garanzia S.p.A. and/or with the Eurosystem of the European Central Bank through collateralized bank assets (*Attivi Bancari Collateralizzati* or *ABACO*); and (viii) own resources.

Our treasury and internal finance team ensure that our available funds are sufficient to cover the purchase of receivables through the funding resources listed above and that we maintain a balance between our sources and uses.

As of December 31, 2016, the financial resources resulting from the banking organization wholesale funding and from the issuance of debenture bonds, with reference to the parent company, was equal to €2,115million, compared with €1,764 million as of December 31, 2015.

As of December 31, 2016 the total available funding amounted to €3,152 million (compared to €2,182 million as of December 31, 2015), calculated taking into account approximately € 817 million deposited via "*Conto Facto*" and "*Cuenta Facto*" (net of accrued interest) and the wholesale funding of the Magellan Group resulting from the issuing of bonds and credit facilities for a total amount of €219 million (of which approximately 87% was in PLN). As of December 31, 2016 we used a total amount of €2,291 million over the total available funding, €183 million of which were attributable to Magellan and its subsidiaries.

Government bonds and repo

Since 2014, after obtaining a banking license, we have been able to reduce the cost of funding by entering into securities transactions. In accordance with our policies, our securities portfolio is composed of government securities exclusively issued by European Union Member States (as of December 31, 2016 it only included Government Bonds issued by the Republic of Italy), which must reflect specific ratings by External Credit Assessment Institutions ("**ECAI**") recognized by the Banking Supervisory Authority. As of December 31, 2016 our securities portfolio is composed of government securities for a total amount of €2,014.4 million. The acquisition of securities classified as HTM is linked to our committed and unsecured funding realized through the interbank channel, bond issue and collection of savings through our Online Deposits. The amount and duration of our HTM securities must not exceed the maximum amount and duration specified for each form of funding/collection to which such securities are linked, at the date of acquisition of such securities.

The same securities are used for refinancing activities via Open Market Operations Auctions held by the ECB or in repo transactions mainly carried out on the MTS platform. At present, there is not a liquidity risk due to the fact that the "full allotment" regime which is currently in place and provides the complete and guaranteed fulfilment of the ECB of liquidity requests made by banks against the transfer of eligible assets. Our current government bonds policy provides for an update at the end of the "full allotment" regime.

The refinancing of government bonds generally does not entail significant additional risks concerning Group liquidity in relation to the present full allotment condition made available by the ECB (procedure for the ECB Auctions introduced in 2008 following the liquidity crisis, which provides a fixed interest rate set by the ECB and a full awarding of the amount requested by the single counterparties). The weight of the securities and debt arising from their refinancing is relevant solely in nominal terms but in reality it consists in an activity aimed at optimizing the cost of funding and the management of the Company's treasury position.

The further downgrading of the Republic of Italy's creditworthiness may lead to a further decrease in the value of the held government bonds. For those government bonds held in portfolio and classified as AFS, this further decrease would not have any impact on our capital requirements as we have adhered to the fair value exemption on own funds up to January 1, 2018. In relation to the refinancing activity of the securities portfolio, larger reductions and guarantee margins could be applied, on a case to case basis, with a consequent increase in the costs of managing these activities.

€300.0 Million Senior Notes due 2017

On June 12, 2014, we issued a series of €300.0 million 2.75% senior notes due 2017 which are listed on the Irish Stock Exchange. The 2017 Notes were unsecured and not guaranteed. The proceeds of the 2017 Notes were used for general corporate purposes. The terms and conditions of the 2017 Notes are governed by English law.

Morgan Stanley & Co. International PLC acted as lead manager in connection with the subscription of the 2017 Notes on the issue date and the subsequent placement; pursuant to the relevant agency agreement, Citibank, N.A., London Branch will act as fiscal agent and paying agent. See "*Risk Factors—Risks Related to the Offer Shares and the Offering—Our relationships with the Joint Global Coordinators may present conflicts of interest*".

Ranking

The 2017 Notes are senior obligations that rank *pari passu* in right of payment with its existing and future indebtedness that is not expressly subordinated to the 2017 Notes, senior in right of payment to its future indebtedness that is expressly subordinated to the 2017 Notes, and effectively subordinated to all of our existing and future indebtedness and our subsidiaries' other obligations that are secured by property and assets, to the extent of the value of the property and assets securing such obligation.

Interest, Payment Date and Maturity

The 2017 Notes bear interest at a fixed rate of 2.75% per annum, payable annually on June 12 of each year. Unless previously redeemed or purchased and cancelled pursuant to their terms and conditions, the 2017 Notes will be redeemed at their principal amount on June 12, 2017.

Optional Redemption

We have the right to redeem the 2017 Notes in full at any time at their principal amount, together with interest accrued to the date fixed for redemption if, as a result of any change in the tax laws of the Republic of Italy, we become obliged to pay additional amounts on the next payment date and such obligations cannot be avoided by taking reasonable measures.

Negative Pledge

The terms and conditions of the 2017 Notes contain an undertaking that limits our and our Material Subsidiaries' ability to create, or permit the creation of, any security interest upon the whole or any part of our present or future undertakings, assets or revenues in order to secure: (i) any present or future notes or similar securities, or (ii) any guarantee and/or indemnity granted in relation to any notes or similar securities, without: (a) at the same time or prior thereto, securing the 2017 Notes equally and ratably therewith or (b) providing another form of security for the 2017 Notes approved by an extraordinary resolution of the noteholders.

For the sake of clarity, under the 2017 Notes and the 2021 Notes, "material subsidiary" (a "**Material Subsidiary**") means every subsidiary pursuant to Article 2359 of the Italian Civil Code which represents at least 10% of the operating income of the Group, the Group's consolidated income before tax, the Group's consolidated assets, to be determined on the basis of the data relayed in the most recent consolidated financial statement of the Group and the most recent financial statement of the subsidiary (as well as the financial statement of the latter's subsidiaries), having regard also to the any calculation adjustments provided under the terms and conditions of, respectively, the 2017 Notes and the 2021 Notes.

As of the date of this Offering Circular, all of our subsidiaries are considered to be restricted subsidiaries under the terms and conditions of the 2017 Notes.

Events of Default

The terms and conditions of the 2017 Notes contain events of default-upon the occurrence of which we may be required to immediately repay the notes, together with accrued interest yet to be paid at the relevant date-that are however customary for such forms of financing. Said events of default are subject to materiality qualifications and exceptions, baskets and grace periods, as appropriate, and include, by way of example: (a) failure to pay any amount of principal or interest in respect of the 2017 Notes when due; (b) failure to perform or comply with any obligation arising under the terms and conditions of the 2017 Notes, unless cured within 30 days from the date on which we received written notice in such regard; (c) cross-default concerning other indebtedness (including that of our subsidiaries), as long as the relevant amount is over €20,000,000.00; (d) failure to comply with the obligations arising from court sentences concerning amounts exceeding the €20,000,000.00 thresholds, in case the payment is not processed within 45 days or the different term set out therein; (e) insolvency (including *moratoria* and recovery plans relating to indebtedness entered into with the relevant creditors) concerning either us or our Material Subsidiaries; (f) discontinuance or change concerning either the entirety or a material part of our business activities, unless it consists in an expressly provided instance of permitted reorganization; (g) dissolution or winding up events concerning either us or our Material Subsidiaries, unless it consists in an expressly provided instance of permitted reorganization; (h) failure to take necessary action in order to perform our obligations arising under the 2017 Notes and/or to ensure that such obligations are valid, enforceable and legally binding.

Under the 2017 Notes, a "permitted reorganization" means any corporate reorganization, merger, demerger, contribution in kind, restructuring or other similar transaction, carried out while solvent and with the occurrence of the following conditions (i): the transaction has been approved by the extraordinary meeting of the noteholders; (ii) in relation to one of our Material Subsidiaries, *provided that* the transfer of the assets, regardless of its nature, is carried out to our benefit or the benefit of another Material Subsidiary; (iii) in case of discontinuance of business activity pursuant to the terms and conditions of the 2017 Notes, *provided that* the transfer of assets, whatever it is made, is carried out at arms' length and at a price equal to the fair value of the transferred assets, as confirmed by our Board of Directors; (iv) to the extent that we are concerned, as long as the transfer of assets, regardless of its nature: (a) is made in favor of a bank which is authorized to operate in Italy or in another Member State of the European Union (the "**Substitute**"); (b) the Substitute takes on the obligations of principal debtor in relation to the 2017 Notes (executing every deed and/or document, including an act of replacement, which may become necessary (the "**Relevant Documents**"); (c) the documents and the other certificates and declarations specified, respectively, in the terms and conditions of the 2017 Notes are entered into; and (d) a notice is given to the noteholders within 15 days from the signing of the Relevant Documents.

€150.0 Million Senior Notes due 2021

On June 21, 2016, we issued a series of €150.0 million 1.25% senior notes due 2021 (the "**2021 Notes**") which are listed on the Irish Stock Exchange. The 2021 Notes were unsecured and not guaranteed. The proceeds of the 2021 Notes were used for general corporate purposes. The terms and conditions of the 2021 Notes are governed by English law.

Citigroup Global Markets Limited acted as lead manager in connection with the subscription of the 2021 Notes on the issue date and the subsequent placement; pursuant to the relevant agency agreement, Citibank, N.A., London Branch acts as fiscal agent and paying agent.

Ranking

The 2021 Notes are senior obligations that rank *pari passu* in right of payment with its existing and future indebtedness that is not expressly subordinated to the 2021 Notes, senior in right of payment to its future indebtedness that is expressly subordinated to the 2021 Notes, and effectively subordinated to all of our existing and future indebtedness and our subsidiaries' other obligations that are secured by property and assets, to the extent of the value of the property and assets securing such obligation.

Interest, Payment Date and Maturity

The 2021 Notes bear interest at a fixed rate of 1.25% per annum, payable annually on June 21 of each year. Unless previously redeemed or purchased and cancelled pursuant to their terms and conditions, the 2021 Notes will be redeemed at their principal amount on June 21, 2021.

Optional Redemption

We have the right to redeem the 2021 Notes in full at any time at their principal amount, together with interest accrued to the date fixed for redemption if, as a result of any change in the tax laws of the Republic of Italy, we become obliged to pay additional amounts on the next payment date and such obligations cannot be avoided by taking reasonable measures.

Negative Pledge

The terms and conditions of the 2021 Notes contain an undertaking that limits our and our Material Subsidiaries' ability to create, or permit the creation of, any security interest upon the whole or any part of our present or future undertaking, assets or revenues in order to secure: (i) any present or future notes or similar securities, or (ii) any guarantee and/or indemnity in relation to any notes or similar securities, without: (a) at the same time or prior thereto, securing the 2021 Notes equally and ratably therewith or (b) providing another form of security for the 2021 Notes approved by an extraordinary resolution of the noteholders.

As of the date of this Offering Circular, all of our subsidiaries are considered to be restricted subsidiaries under the terms and conditions of the 2021 Notes.

Events of Default

The terms and conditions of the 2021 Notes contain events of default-upon the occurrence of which the we may be required to immediately repay the notes, together with accrued interest yet to be paid at the relevant date-that are however customary for such financing. Said events of default are subject to materiality qualifications and exceptions, baskets and grace periods, as appropriate, and include, by way of example: (a) failure to pay any amount of principal or interest in respect of the 2021 Notes when due; (b) failure to perform or comply with any obligation arising under the terms and conditions of the 2021 Notes, unless cured within 30 days from the date on which we received written notice in such regard; (c) cross-default concerning other indebtedness (including that of our subsidiaries), as long as the relevant amount is over €20,000,000.00; (d) failure to comply with the obligations arising from court sentences concerning amounts exceeding the 20,000,000.00 thresholds, in case the payment is not processed within 45 days or the different term set out therein; (e) insolvency (including *moratoria* and recovery plans relating to indebtedness entered into with the relevant creditors) concerning either us or our Material Subsidiaries; (f) discontinuance or change concerning either the entirety or a material part of our business activities, unless it consists in an expressly provided instance of permitted reorganization; (g) dissolution or winding up events concerning either us or our Material Subsidiaries, unless it consists in an expressly provided instance of permitted reorganization; (h) failure to take necessary action in order to perform our obligations arising under the 2021 Notes and/or to ensure that such obligations are valid, enforceable and legally binding. Under the 2021 Notes, a "permitted reorganization" means any corporate reorganization, merger, demerger, contribution in kind, restructuring or other similar transaction, carried out while solvent and with the occurrence of the following conditions (i): the transaction has been approved by the extraordinary meeting of the noteholders; (ii) in relation to one of our Material Subsidiaries, provided that the transfer of the assets, regardless of its nature, is carried out to our benefit or the benefit of another Material Subsidiary; (iii) in case of discontinuance of business activity pursuant to the terms and conditions of the 2021 Notes, provided that the transfer of assets, whatever it is made, is carried out at arms' length and at a price equal to the fair value of the transferred assets, as confirmed by our Board of Directors; (iv) to the extent that we are concerned, as long as the transfer of assets, regardless of its nature: (a) is made in favor of a bank which is authorized to operate in Italy or in another Member State of the European Union (the "Substitute"); (b) the Substitute takes on the obligations of principal debtor in relation to the 2021 Notes (executing every deed and/or document, including an act of replacement, which may become necessary (the "Relevant Documents"); (c) the documents and the other certificates and declarations specified, respectively, in the terms and conditions of the 2021 Notes are entered into; and (d) a notice is given to the noteholders within 15 days from the signing of the Relevant Documents.

€100.0 Million Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2027

On March 2, 2017, we issued a series of €100.0 million fixed rate reset callable subordinated Tier 2 notes due 2027 (the "**2027 Notes**") which are listed on the Irish Stock Exchange. The 2027 Notes are unsecured and not guaranteed. The 2027 Notes qualify as Tier 2 instruments to be included in the Tier 2 capital of the Company for regulatory capital purposes, in accordance with the applicable regulatory framework and, in particular, with Article 63 of the CRR and Part II, Chapter 1 of Circular 285.

The 2027 Notes were issued in order, *inter alia*, to further enhance our liquidity ratios (in particular in terms of NSFR), strengthen and organize in a more articulate and efficient way our regulatory capital structure. The proceeds of the 2027 Notes were used for general corporate purposes to fund our ordinary business. The terms and conditions of the 2027 Notes are governed by English law, save for the certain provisions which are governed by Italian law. See "*Risk Factors—Risks related to our Notes*".

Morgan Stanley & Co. International PLC acted as lead manager in connection with the subscription of the 2027 Notes on the issue date and the subsequent placement; pursuant to the relevant agency agreement, Citibank, N.A., London Branch will act as fiscal agent and paying agent. See "*Risk Factors—Risks Related to the Offer Shares and the Offering—Our relationships with the Joint Global Coordinators may present conflicts of interest*".

Ranking

The 2027 Notes are subordinated obligations that rank *pari passu* without any preference amongst themselves and with all other present and future unsecured and subordinated obligations of the Company (other than those subordinated obligations expressed by their terms to rank lower or higher than the 2027 Notes), with the exception of those preferred by mandatory and/or overriding provisions of law.

Maturity, Interest and Payment Dates

Unless previously redeemed or purchased and cancelled pursuant to their terms and conditions, the 2027 Notes will be redeemed at their principal amount on March 2, 2027 (the "**Maturity Date**").

The 2027 Notes bear interest, payable annually on March 2 of each year, at an initial fixed rate of 5.875% (the "**Initial Rate**") starting from March 2, 2018 until March 2, 2022 (the "**Reset Date**") should the Company exercise its right to reset the provided interest rate (in which case, the interest rate would be reset to a fixed rate equal to the annual mid-swap rate for euro swap transactions with a term of five years prevailing on the Reset Date, plus a margin equal to 6.164%).

Early Redemption and Repurchases

The 2027 Notes are not redeemable at the option of the noteholders and we have the right to call, redeem, repay or repurchase the 2027 Notes before the Maturity Date only in accordance with and subject to the conditions set out in Articles 77(b) and 78 of the CRR being met and not prior to 5 years from their issue date, except where the conditions set out in (i) Article 78(4) of the CRR, or (ii) in the case of repurchases for market making purposes (where applicable), Article 29(3) of the Delegated Regulation, are met.

In particular, subject to the application of the abovementioned conditions, we have the option to early redeem the 2027 Notes, in whole or in part, on March 2, 2022 (the "**Optional Redemption Date**") at their principal amount. Before the Optional Redemption Date, we may redeem the 2027 Notes at their principal amount only in case of tax law changes or changes in the regulatory classification of the 2027 Notes (with respect to their tier II status) in accordance with Article 78(4) of the CRR.

Negative Pledge

Under the terms and conditions of the 2027 Notes, so long as any of the 2027 Notes remains outstanding, we (and our Material Subsidiaries, as defined therein) may not create or permit to subsist any security interest (other than a permitted security interest, as defined in the same terms and conditions) upon the whole or any part of our present or future undertakings, assets or revenues (including uncalled capital) to secure (i) any relevant indebtedness or (ii) any guarantee and/or indemnity in relation to any relevant indebtedness, without (a) at the same time or prior thereto securing the 2027 Notes equally and ratably therewith or (b) providing such other security for the 2027 Notes as may be approved by an extraordinary resolution of noteholders.

According to the definition set out under the same terms and conditions, "relevant indebtedness" means any present or future indebtedness (whether principal, premium, interest or other amounts) which is in the form of or represented by any note, bond, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, traded, quoted, listed or dealt in on any stock exchange, over-the-counter or other securities market.

For the sake of clarity, under the 2027 Notes, a "material subsidiary" means Magellan and Farmafactoring España (for so long as each remains one of our subsidiaries), as well as every subsidiary pursuant to Article 2359 of the Italian Civil Code which represents at least 10% of the operating income of the Group, the Group's consolidated income before tax, the Group's consolidated assets, to be determined on the basis of the data relayed in the most recent consolidated financial statement of the Group and the most recent financial statement of the subsidiary (as well as the financial statement of the latter's subsidiaries), having regard also to the any calculation adjustments provided under the terms and conditions of the 2027 Notes.

Events of Default

In the event of a voluntary or involuntary winding up, dissolution, liquidation or bankruptcy (including, inter alia, *Liquidazione Coatta Amministrativa*) of the Company, otherwise than for the purposes of a permitted reorganization or on terms previously approved by an extraordinary resolution of the noteholders, any holder of a 2027 Note may, by written notice to the Company at the specified office of the fiscal agent, effective upon the date of receipt thereof by the fiscal agent, declare any such 2027 Notes held by the holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at its principal amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

Under the 2027 Notes, a "permitted reorganization" means any corporate reorganization, merger, demerger, contribution in kind, restructuring or other similar transaction, carried out while solvent and with the occurrence of the following conditions (i): the transaction has been approved by the extraordinary meeting of the noteholders; (ii) in relation to one of our material subsidiaries, *provided that* the transfer of the assets, regardless of its nature, is carried out to our benefit or the benefit of another material subsidiary; (iii) to the extent that we are concerned, as long as the transfer of assets, regardless of its nature: (a) is made in favor of a bank which is authorized to operate in Italy or in another Member State of the European Union (the Substitute, as defined in the relevant terms and conditions); (b) the Substitute takes on the obligations of principal debtor in relation to the 2027 Notes (executing every deed and/or document, including an act of replacement, which may become necessary (the Relevant Documents, as defined in the relevant terms and conditions); (c) the documents and the other certificates and declarations specified, respectively, in the terms and conditions of the 2027 Notes are entered into; and (d) a notice is given to the noteholders within 15 days from the signing of the relevant documents.

Terms and conditions of our main loan agreements

We are a party to a number of loan agreements (the "**Loan Agreements**") which make short-term revolving type unsecured lines of credit available to us for a maximum principal amount which cannot exceed €100,000,000.00 (the "**Lines of Credit**"). The Loan Agreements and Lines of Credit are designed to provide financial resources for our ordinary business operations, as well as support our general cash requirements.

Each Line of Credit can be split into one or more tranches, for minimum amounts and the drawdown periods specified, from time to time, in the Loan Agreement, during the entire availability period of the Line of Credit (generally, until the date which falls one month or one week before the final deadline of the actual Line of Credit). In some cases, the Loan Agreement also specifies the maximum number of drawdowns which can concurrently exist for the Line of Credit or the maximum number of utilization requests which can be made monthly to the lending bank.

Each drawdown must be repaid at the specified due date for the drawdown period, subject to our right to renew it in conformity with the provisions of the Loan Agreement; all drawdowns for a Line of Credit must be repaid in full at the final due date of the Line of Credit. Interest accrues at a variable interest rate equal to the Euribor plus a fixed component and, generally, interest is paid at the due date of the related drawdown period.

The Loan Agreements provide the payment, on a quarterly basis, at the terms and conditions specified therein, of a fee if the Lines of Credit are not fully used by the Company.

Voluntary Early Redemption/Voluntary Cancellation

The Loan Agreements include a right for us to cancel, in full or in part, the Lines of Credit and/or to yearly redeem, in full or in part, the drawdowns, by giving prior written notice to the lending bank. In case of cancellation or partial early redemption, the minimum amount of the cancellation or early redemption should also be specified. There are no provisions for any fee and/or penalty, except in certain cases, the payment of any break costs for the voluntary prepayment/cancellation.

Mandatory Early Redemption

Some of the Loan Agreements require us (if necessary, usually following a written request from the lending bank) to apply to mandatory early redemption, in whole or in part, the entire amount of the proceeds deriving from acts of disposal of corporate assets which do not come under our core business, nor are functional for it (other than expressly permitted sales), unless we reinvest such income in our core business (or in similar and/or related business activities) within a certain time limit following the collection date.

In addition, in such cases, in the event of our change of control for reasons other than listing and the consequent exercise by the lending bank of its right to withdraw from the Loan Agreement, we must prepay outstanding loans.

Representations and Warranties

We make certain representations and warranties which we consider to be market standard for operations of this kind and include, *inter alia*, (i) due incorporation and existence, (ii) power and capacity, (iii) the absence of liens on assets (with the exception of expressly permitted liens), (iv) the absence of material pending or threatened disputes, (v) tax compliance, (vi) accounting compliance and (vii) absence of significant events.

Covenants and reporting obligations

The Loan Agreements contain certain covenants which we consider to be market standard for operations of this kind.

Among our reporting obligations are, *inter alia*, the obligation to, within relevant deadlines: (i) deliver a copy (which may also be provided using an electronic format) of both certified and consolidated financial statements, as well as half-year reports (the latter also at a consolidated level, where applicable); (ii) send the agenda of the extraordinary shareholders' meetings as well as a copy of the relative minutes; (iii) notify the lending bank of certain extraordinary transactions, as well as of the disposal of corporate assets and goods (in general, the relative clauses refer to transactions which may potentially entail the possibility for an early repayment and which are not expressly allowed under the terms and conditions of the relevant loan agreement); (iv) inform the lending bank of any change of control that occurs and, in certain cases, also of changes in the shareholding structure that do not have an impact on the control structure (*provided that* the change in control event does not occur within the context of a listing on a stock exchange); and (v) promptly notify the lending banks of the occurrence of events capable of having a material adverse effect on our business (*i.e.* events that may adversely impact our capital, economic and financial status).

The Loan Agreements also provide specific obligations of a non-informational nature pursuant to which we (and also, in some instances, certain companies of the Group), subject to customary exceptions, agree: (i) not to carry out extraordinary transactions or acts of disposal of assets other than those expressly permitted (unless the relevant lending bank provides its prior written consent in such regard, where applicable); (ii) to reinvest the income resulting from certain transfers of goods in typical activities or in similar and/or related activities; and (iii) not to create, or allow the creation of, liens and pledges on assets other than the liens and pledges expressly permitted (*i.e.* "negative pledge" clause).

In addition to the above-mentioned commitments, some of the Loan Agreements also require us to comply, for the entire duration of the loan, with certain financial ratio covenants, compliance with which is tested every six months and is certified in a compliance certificate to be sent within the same time deadlines provided for the transmission of the Consolidated Financial Statements or the half-year reports. These covenants include, *inter alia*:(a) the levels of yearly profits; (b) the ratio between (i) bad debts (as reflected in the financial statements) and (ii) non-recourse receivables purchased outright; (c) the ratio between (i) funds recorded in the financial statements and (ii) non-recourse receivables purchased outright, calculated on the basis of various factors set out under the applicable legal and regulatory framework; and (d) the ratio between (i) the value of common equity (*capitale primario*) and (ii) the value of the risk-weighted assets (*attività ponderate*) (each as defined according to the applicable European legislation).

The following table sets out the data concerning the provided threshold values in connection with each financial parameter that are outstanding as of the date of this Offering Circular and come from the most recent company audit.

	Requirement	Covenant
Profit Before Extraordinary Management	—	positive
Bad debts / Outstanding Total	—	≤ 4%
Total own funds / Non-recourse Weighted Outstanding	weighting coefficient = 20%	> 15% / 20%
	weighting coefficient = 50%	> 12%
	weighting coefficient = 100%	> 9%
CET1 Capital Ratio		≥ 8 / 12%

	As of December 31, 2016
	(in €millions except percentages)
Profit before extraordinary management	102.2
Bad debts / Outstanding total	0.6%
Total own funds / Non-recourse weighted outstanding	32.7%
CET1 Capital Ratio	16.4%
Total Capital Ratio	16.6%

The prescribed financial parameters in the Company's financing contracts are all autonomous, meaning that a contract that has ended early can be identified from just one missing parameter.

Events of default

The Loan Agreements include a series of events of default (which we believe are customary and, where appropriate, contain customary cure periods/clauses), including, inter alia: (i) a state of insolvency, or being subject to bankruptcy proceedings (or similar proceedings); (ii) cross-default (and, in certain cases, cross-acceleration) for amounts above given materiality levels (usually €20 million); and (iii) failure to fulfil certain obligations with which we much comply (including, the violation of any of the financial parameters which may be set out in the Loan Agreement). Upon an event of default, the lending bank will have the right, depending on which clause is triggered, to accelerate repayment and/or to withdraw from and/or terminate the Loan Agreement with immediate repayment of any existing drawdowns relating to the Lines of Credit and to also pay any amounts otherwise due pursuant to the relevant Loan Agreement.

Magellan Bond Programs

PLN 750 million bond program placed by mBank S.A.

On January 17, 2013, Magellan, as issuer, entered into a program agreement with mBank S.A. ("**mBank**") as the issue agent, payment agent, depositary and dealer with respect to bond issues for the total nominal value of PLN 750 million (the "**mBank Bonds**"). Magellan has the right to issue several series of bonds for an indefinite period of time. The bond program enables Magellan to issue coupon bearer bonds denominated in PLN and/or in Euro. The bonds are unsecured. The terms and conditions of the bonds are governed by Polish law. The terms and conditions of the bonds do not provide any key financial covenants. Other covenants under the bond program include Magellan's obligation, among others, to (i) provide the dealer with the information memorandum and any required update of the information contained in the information memorandum; (ii) inform the dealer of change in management board composition and relevant power of attorneys within relevant deadlines, (iii) respect the provisions of law; (iv) deliver to a dealer a copy of the quarterly report, half-year report and annual financial statements; and (v) notify the dealer of the disposal of corporate assets and goods having a material adverse effect on financial situation of Magellan. The terms and conditions of the bonds contain events of default that are customary for such financings, which are subject to materiality qualifications and exceptions, baskets and grace periods, as appropriate, and include: (i) enforcement or seizure of property for an amount exceeding 5% of

Magellan's equity, (ii) unsecured asset ratio not lower than 120%, (iii) failure to pay any amount in respect of the bonds when due, (iv) financial indebtedness for an amount exceeding PLN 20 million if not paid when due or is declared due and payable before the original maturity date, (v) default in the performance or observance of any obligation under the terms and conditions of the bonds, (vi) delivery of a judgment to pay an amount exceeding 5% of Magellan's equity, (vii) submission of false representations and/or warranties, (viii) insolvency, (ix) cessation of business, (x) asset disposal causing severe deterioration of Magellan's financial situation, (xi) the issuance of secured bonds, (xii) change of control over Magellan, (xiii) no listing on ATS within 90 business days after the issuance date and (xiv) exclusion of bonds from the ATS market. Upon the occurrence of any event of default, the bondholders can call for an immediate redemption of bonds, which causes such bonds to be immediately due and payable. The bonds become immediately due and payable upon the commencement of proceedings to wind up Magellan.

On October 28, 2016, Magellan obtained a waiver for mBank regarding the event of default which would have been triggered by Magellan's delisting. At the same time, waivers were received from the noteholders of the 2017 Notes and the 2021 Notes as well as the counterparts of some loan agreements to the benefit of the Company designed to confirm that cross-default clauses set forth therein (for further information see "*—Terms and conditions of our main loan agreements*") could be exercised in case of an event of default material to the Group, which could have been triggered by a default by Magellan under the mBank Bonds. On the basis of the positive outcome of the waiver process, the delisting of Magellan shares was no longer an event of default under the mBank Bonds and therefore no cross-defaults would be triggered.

In order to complete the waiver process, the noteholders of the bonds issued by Magellan requested that the bonds be listed on the alternative trading system ("*Catalyst*") within a period of time ranging from March 2, 2017 to March 7, 2017. As of the date of this Offering Circular, Magellan has obtained the listing of the mBank Bonds.

As of the date of this Offering Circular, approximately €95.3 million of bonds have been issued (and still outstanding) under the bond program.

Magellan Loans

Magellan is a party to a six loan agreements and MEDFinance S.A. is a party to four loan agreements ("**Magellan Loan Agreements**").

Covenants and reporting obligations

The Magellan Loan Agreements contain certain covenants which we consider to be market standard for operations of this kind.

Under the Magellan Loan Agreements, the borrower is obliged to meet certain reporting obligations, which include: (i) delivery of certified financial statements and Consolidated Financial Statements together with the resolutions approving such financial statements, (ii) informing the lender about any legal, shareholder structure, business activity changes and other events which may have an impact on the business (in particular regarding loans, guarantees or security encumbering assets), (iii) delivery of documents proving valid encumbrance of security, (iv) delivery of any information and documents which are necessary to make an economic and financial assessment of the borrower, (vi) informing the bank about insolvency or liquidation proceedings, (vii) informing the bank about any event of default and (viii) providing information on court proceedings exceeding the amount of PLN 20,000,000.

The Magellan Loan Agreements include other obligations of a non-informational nature to which the borrower agrees to: (i) utilize the credit line in accordance with the respective agreement, (ii) allow the lender's employees to check whether the credit line was used in accordance with the agreement and the economic and financial situation of the borrower, (iii) add additional security if its economic or financial situation worsens, (iv) not to grant guarantees for other entities exceeding a certain per cent. of the net assets for the last financial year, (v) not to adopt resolutions on a share capital decrease, (vi) to comply with provisions of other agreements between the borrower and the relevant lending bank, (vii) secure incomes from its business activity on an indicated in the loan agreement level, (viii) transfer its business activity payments through the bank accounts, (ix) not to sell, lease or otherwise dispose of its assets except for cases of ordinary course of business, (x) not to be subject to any corporate transformation, (xi) not to make substantial changes in the scope of its economic activity, (xii) not to enter into any facility agreements, guarantees, loans and not to encumber or dispose of any assets which are the bank's security or are necessary to conduct its business without a written consent of the bank, (xiii) ensure monthly income in the current account at a level indicated in the loan agreement and (xiv) ensure that all transactions with affiliates are at arm's length.

The following chart shows the financial ratio covenants provided by the Magellan Loan Agreements of the companies of the Magellan Group. Please note that, following an amendment executed in relation to the Magellan Loan Agreements in March 2017, should Magellan fail to fulfil its financial covenant concerning the provided debt-to-assets ratio in the calculation period ending on March 31, 2017, this shall not constitute a breach of the relevant facility agreement.

Magellan Covenant	Requirement*	As of December 31, 2016
Debt to assets ratio (data available from March 31, 2017)	≤ 80%	—(1)
Debt to own funds	≤6(2)	4.22
Net profit margin	> 0(3)	30(4)
Total balance-sheet liabilities and reserves to total equity and loans from affiliates, less goodwill and trademarks	< 5.5:1/6:1	4.22
Ratio of the claims due to Magellan and its affiliates overdue more than 90 days to aggregate claims due to Magellan and its affiliates	<10%	2.1%

* ratio assessed on the basis of Magellan S.A.'s standalone data

(1) Data not available as of December 31, 2016.

(2) The ratio was changed subject to the annex to the loan agreement with ING Bank Śląski S.A. signed on or about December 15, 2016.

(3) The ratio was changed subject to the annex to the loan agreement with ING Bank Śląski S.A. signed on or about December 15, 2016.

(4) Data in PLN millions.

MEDfinance Covenant	Requirement
Total balance-sheet liabilities and reserves to total equity and loans from affiliates, less goodwill and trademarks	< 7.5:1/8:1
Ratio of the claims due to Magellan and its affiliates overdue more than 90 days to aggregate claims due to Magellan and its affiliates	<10%

Events of default

The Loan Agreements include a series of events of default, including, *inter alia*: (i) failure to pay any amount of principal or interest on the credits when due, (ii) default in the performance or observance of any obligation under the loan agreement, (iii) cross-default: (a) an event of default under any other agreement between Magellan or an entity from its group and the lender or an entity from its group), (b) any financial indebtedness of a member of the group in an amount exceeding PLN 20,000,000 is not paid when due and such payment is delayed for more than 10 days or is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default, (c) any commitment for any financial indebtedness to a member of the group is reduced, cancelled or suspended as a result of the event of default or (d) any creditor or member of the group becomes entitled to declare any financial indebtedness of any member of the group due and payable to its specified maturity as a result of the event of default (any default arising from the delisting is not included in the PLN 20,000,000 limit and will not cause an event of default), (iv) closing the bank account, (vi) insolvency proceedings, (vii) material adverse change, (viii) failure to meet the financial covenants, (ix) change of control, (x) a decrease of the security instruments' value, (xi) Magellan's economic or financial situation worsens and may jeopardize the loan repayment, (xii) if the borrower or the guarantor (if any) is provided with other facilities without the lender's consent which, in the lender's opinion, will threaten the payment of the receivable, (xiii) (with respect to the Magellan Loan Agreements where MEDfinance is the borrower and Magellan is the surety) the shareholders of the borrower or the surety adopt a resolution on or another corporate act is undertaken for the purpose of: (a) disbursement of a dividend by the borrower; (b) redemption or purchase of the shares of the borrower (except for implementation of the manager option program); (c) division, consolidation, change of the form of business activity, or corporate reorganization of the borrower or the surety (except for the merger with Mediona and other merger with the lenders written consent), or (d) liquidation or cessation of business activity by the borrower or the surety, and (xiv) any indebtedness of the borrower or the surety in the total amount exceeding PLN 20,000,000 is not repaid when due and payable, becomes immediately due and payable before the original due date, or the creditor acquires the right to declare the debt immediately due and payable, with a reservation that the event referred to above, caused directly and only by the adoption of a resolution by the general meeting of the surety's shareholders on abolishment of the dematerialization of shares in the surety and consent from the Polish Financial Supervision Authority to restore the shares in the surety to the form of a document (abolishment of dematerialization of shares) does not constitute an event of default (the event referred to above caused directly and only by the delisting will not be included in the amount of PLN 20,000,000).

Upon an event of default, the lending bank will have the right to (i) terminate the agreement, (ii) suspend the borrower's right to utilize the overdraft facility (iii) request additional security or (iv) accelerate its loan receivables. In case of termination of the agreement, Magellan will have to pay the receivables by the last day of the termination period at the latest.

In one of the Magellan Loan Agreements, the bank reserves the right to assess whether the organizational and business events impacting the legal and financing standing of the borrower increase the risk of default potentially leading to the termination of the agreement. If Banca Farmafactoring S.p.A. ceases to own directly or indirectly at least 50%+1 of the shares in the share capital of the borrower, the bank will be entitled to terminate the credit agreement with a 30-day notice of termination.

There are no specific predefined parameters that will allow the financing institution to provide its own assessment in respect of the increase in Magellan's risk of default. The financing institution may verify all relevant financial covenants for the purpose of evaluating the aforementioned risk through only the financial statements prepared and published by Magellan.

Security instruments

Some of the Magellan Loan Agreements are secured. The claims under the Magellan Loan Agreements may be secured by one or more of the following security instruments: (i) a blank promissory note, (ii) a registered pledge on the receivables or rights, (iii) a declaration on submission to enforcement up to an indicated amount allowing the creditor to commence enforcement of the debt after obtaining an enforcement order from a court without conducting full proceedings before the court, (iv) a financial pledge over the funds deposited on a bank account, (vi) a security assignment of receivables, (vii) a power of attorney to operate Magellan's current account in the bank and its other existing or future accounts in the bank, and (viii) a guarantee.

Outsourcing

Outsourcing contract with CSE Consorzio Servizi Bancari Soc. Cons. A R.L.

On February 20, 2013, we entered into an outsourcing contract with CSE, which, as amended, provides for the furnishing, development, integration and management of IT systems related to certain activities connected to our banking operations including, in particular, the management of our Conto Facto systems and online collections related to restricted term deposit accounts provided to retail and corporate clients (the "**CSE Outsourcing Contract**").

In addition, the CSE Outsourcing Contract provides for the provision of systems required for the management of certain assets in our portfolio, incoming and outgoing payments to the national interbank network and supervisory reports to be submitted to the Bank of Italy, as well as other services (such as the management of back-up systems and assistance with disaster recovery).

Pursuant to the CSE Outsourcing Contract, the parties must comply with applicable laws and, in particular, the supervisory instructions (*istruzioni di vigilanza*) issued by the Bank of Italy also to ensure operational continuity in case of an emergency.

As consideration for the services provided, we must pay CSE an annual fee based on the number of active clients and volumes deriving from term deposits.

The CSE Outsourcing Contract will expire on July 21, 2017 and does not provide for automatic renewal. The parties may agree to extend the term during the six months prior to the termination date.

Outsourcing contract with Caricese S.r.l.

On June 26, 2014, we entered into an outsourcing contract with Caricese S.r.l. ("**Caricese**"), company of the CSE group specialized in banking and financial services, for the supply of services relating to the back-office activities in connection with our Online Deposits (the "**Caricese Outsourcing Contract**"). In particular, the outsourced activities relate to the opening of accounts, the archiving of documentation received from customers of our Online Deposits and transactional activities concerning the operation of such accounts.

Conversely, we continue to handle internally activities concerning our customer relations.

Pursuant to the Caricese Outsourcing Contract, the parties must comply with applicable laws and, in particular, the supervisory instructions (*istruzioni di vigilanza*) issued by the Bank of Italy also to ensure operational continuity in case of an emergency.

As consideration for the services provided, we must pay Caricese a fee based on the number of cases managed.

The Caricese Outsourcing Contract was renewed until December 31, 2018.

Outsourcing contract with RSI-Rural Servicios Informaticos Sociedad Civil

On April 1, 2015, we entered into an outsourcing contract with RSI, as amended, for the supply, development, integration and management of IT systems related to certain activities connected to our banking operations which are instrumental to the operations of our Spanish branch, including, in particular, the management of Cuenta Facto, incoming and outgoing credit transfers to and from predefined accounts, and reports to the supervisory body (the "**RSI Outsourcing Contract**").

The contract regulates the supply of two different services: (i) the license to use the IRIS system and (ii) the development and publication of Web Services.

Pursuant to the RSI Outsourcing Contract, the parties must comply with applicable laws and, in particular, the supervisory instructions (*istruzioni di vigilanza*) issued by the Bank of Italy also to ensure operational continuity in case of an emergency.

As consideration for the services provided, we must pay RSI an annual fee based on the number of active clients.

The RSI Outsourcing Contract has an initial term of three years from its date of execution, at the end of which it will be automatically renewed for a further period of three years unless either party gives notice of termination at least six months prior to expiry of the term. However, we have the right to rescind the RSI Outsourcing Contract at any time by giving at least six months' written notice. Upon termination, we will pay RSI a contractually agreed fee.

On April 1, 2015, we entered into an additional agreement with RSI for the provision of web/structural hosting, including hardware resources (servers and storage) and software (operating systems and database) to be configured according to our needs. As consideration for the services provided under this additional agreement, we must pay RSI an annual fee based on number of managed systems and their hardware and software configuration. The provisions relating to the term of this additional agreement are the same as those under the RSI Outsourcing Contract.

Outsourcing contract with Qipert-Union de Gestion Hipotecaria S.L.U.

In connection with our banking activities instrumental to the operation of our branch in Spain, on March 5, 2015, we entered into an outsourcing agreement with Qipert Union de Gestion Hipotecaria Slu ("**Qipert**") related to back-office activities, and in particular the verification of documents, dematerialization, reporting of anomalies during the process of registration of customers, activation of new accounts, placing of incoming credit transfers, authorization of outgoing credit transfers, reporting of anomalies related to credit transfers and manual operations (the "**Qipert Outsourcing Contract**"). These back-office activities are essential to the operation and management of Cuenta Facto.

Pursuant to the Qipert Outsourcing Contract, the parties must comply with applicable laws and, in particular, the supervisory instructions (*istruzioni di vigilanza*) issued by the Bank of Italy also to ensure operational continuity in case of an emergency.

As consideration for the services provided, we must pay Qipert an annual fee based on the volumes of collected receivables and the number of cases managed.

The Qipert Outsourcing Contract has an initial term of three years from its date of execution, at the end of which it will be automatically renewed for a further period of three years unless either party gives notice of termination. However, we have the right to rescind the Qipert Outsourcing Contract at any time by giving at least 60 days' written notice.

Servicing

Servicing contract with BFF Luxembourg

On March 4, 2016 we entered into a servicing contract with BFF Luxembourg aimed at meeting the requirements set out by the CRR in order to adequately report to BFF Luxembourg and consolidate relevant data of both the Company and the Group, and the data requested for the consolidation at the CRR level undertaken for prudential supervision purposes. BFF Luxembourg periodically reports the information relating to its Capital and Financial position to the Company, in order to allow the Company to ensure the inclusion of such data in supervisory notifications made on a consolidated basis, thus also reflecting BFF Luxembourg's position in the broader perimeter of consolidation at the CRR Level undertaken for prudential supervision purposes.

More specifically, BFF Luxembourg reports the following items to the Company, in a format compatible with the schemes of supervisory prudential notification and in sufficient time for the submission of the supervisory notification:

(a) on a monthly basis, standalone schemes of income statement and balance sheet for BFF Luxembourg;

(b) on a quarterly basis, standalone information on the Capital and Liquidity position of BFF Luxembourg; and

(c) information relating to BFF Luxembourg's shareholder composition (and any potential changes).

On the basis of the information provided, the Company provides services in support of the compilation and forwarding of the consolidated supervisory notification in the name and on behalf of BFF Luxembourg. The Company thereby complies with its duty of inclusion of BFF Luxembourg within the perimeter of the consolidation undertaken for prudential supervision purposes, and uses the information provided by the latter in order to monitor the relevant risk levels and comply with prudential requirements on a consolidated basis.

Finally, the contract defines procedures for cooperation and sharing of the consolidated notifications in case potential amendments are required with respect to notices previously submitted to the Bank of Italy or to other requests or communications from the competent supervisory authorities.

In order to carry out the services set out under the servicing agreement, the Company will be entitled to a consideration equal to €10.5 thousand to be paid on a quarterly basis.

Asset Quality

In accordance with Bank of Italy requirements, we perform impairment testing on our assets and classify them as either "performing" or "impaired". Assets with a risk of loss are classified as impaired, while all other assets are classified as performing (including assets that, although past due, show no objective indication of impairment based on internal, historical or statistical information).

Impaired assets are divided into the following categories: (i) past due exposures; (ii) unlikely to pay; and (iii) non-performing exposures. The definitions of these categories are provided by the Bank of Italy and are as follows:

(i) *Past due exposures*. Exposures are defined as "past due" when they have not been paid for more than 90 days and the payor shows some objective indication of impairment (either individually or collectively). All receivables with central administrations and central banks, public sector entities and territorial entities will be considered past due when the payor has not made any payments for any receivables owed to the Group for more than 90 days.

(ii) *Unlikely to pay*. Exposures are defined as "unlikely to pay" when the payor is assessed as unlikely to repay his credit obligation in full. The classification within the "unlikely to pay" category is not necessarily related to the explicit presence of anomalies, but rather it is linked to the presence of evidence of a debtor's risk of default. The "unlikely to pay" category combines two categories previously provided for by the Bank of Italy, namely watchlist loans and restructured loans.

(iii) *Non-performing exposures*. Exposures are defined as "non-performing" when the payor is effectively insolvent (although not yet legally insolvent) or in a similarly distressed situation, regardless of any provisions for loss set aside by the Company.

The tables below show the Group performing exposures and impaired assets, net of adjustments as of December 31, 2016 (including also Magellan) and 2015.

	As of December 31			
	2016		2015	
	(€ millions, except percentages)			
Performing exposures	**2,437.2**	**97.5%**	**1,916.3**	**97.7%**
Non-performing exposures	12.1	0.5%	2.5	0.1%
Unlikely to pay	3.6	0.2%	—	—
Past due exposures	46.2	1.8%	43.2	2.2%
Total impaired assets	**61.9**	**2.5%**	**45.7**	**2.3%**

As a result of our debtor characteristics and the geographical distribution of our receivables portfolio, high-risk concentration is reduced, as further evidenced by a relatively low asset exposure. We made an impairment reversal for non-performing receivables and loans in the sum of €0.01 million for the year ended December 31, 2016, compared to €0.02 million for the year ended December 31, 2015. Such provisions or reversals are assessed on a case-by-case basis considering expected recovery. We also make provisions for collective impairment tests on performing receivables and loans. The total amount of net losses on impairment of receivable and loans for both performing and non performing receivables and loans was €2.2 million for the year ended December 31, 2016, compared to €1.1 million for the year ended December 31, 2015.

Capital Ratios

Under the CRD IV and the CRR the Company is subject to risk-based capital ratios ("**Capital Ratios**"). The Capital Ratios consist of core (Tier I) and supplemental (Tier II) capital requirements relating to the Company's assets and certain off-balance sheet items weighted according to risks ("**Risk-Weighted Assets**").

The table below shows the Capital Ratios of the Banking Group and of the consolidation perimeter for the purposes of the CRR as of December 31, 2016, which exceed the minimum levels prescribed under applicable regulations.

	As of December 31, 2016	
	Consolidation perimeter for the purposes of the CRR	Banking Group
	(€ millions, except percentages)	
Tier 1 Capital	231.9	235.3
Additional Tier 1	1.2	0
Tier 2 Capital	1.6	0
Own funds	234.7	235.3
Risk-weighted assets	1,416.8	1,410.6
Tier 1 Capital Ratio	16.5%	16.7%
Total Capital Ratio	16.6%	16.7%

As mentioned above, on January 13, 2017, DBRS (the Group's ECAI) announced that it had downgraded the Republic of Italy's Long-Term Foreign Currency and Local Currency Issuer Ratings from A (low) to BBB (high), which has had an estimated negative effect on our regulatory capital ratios equal of approximately 3.6%. For more information, see "*Risk Factors—Risks Related to Our Business—We may be unable to meet the minimum capital adequacy requirements*".

In the light of the above, the table below shows the adjusted Capital Ratios of the Banking Group as of December 31, 2016, which exceed the minimum levels prescribed by under applicable regulations.

	As of December 31, 2016
	(€ millions, except percentages)
Tier 1 Capital	235.3
Tier 2 Capital	0
Own funds	235.3
Risk-weighted assets	1,801.1
Tier 1 Capital Ratio	13.1%
Total Capital Ratio	13.1%

However, we believe that the impact of the downgrade is due to be fully offset in 2017 thanks to the use of excess capital, organic capital generation and other positive elements which have already been identified (among which, our Board of Directors has resolved upon the implementation of certain measures including, in particular, the issuance of the 2027 Notes, which consist of a contribution to the own funds for a total amount corresponding to the net proceeds of the issuance). See "*Business—Funding—€100.0 million Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2027*" and "*Business—Description of Our Business—Activities by Service Segments—Non-Recourse Factoring*". In addition, in order to avoid the impact arising from the downgrade, our Board of Directors may also consider to apply an alternative approach in relation to the calculation of risks weighted assets which also impact the past due qualification which takes into consideration the original due date of the receivable, while the current past due qualification is related to the estimated date of payment. This approach would allow a more favorable risk weight of exposures to entities belonging to the Italian national healthcare system and/or of the public administration (20%) compared to the risk weight currently adopted by the Company (100% after the recent DBRS rating downgrade of the Italian sovereign debt, 50% before such downgrading). See "*Risk Management—Credit risk management policies*".

In addition, our Board of Directors decided to raise the percentage of the estimated amount of late payment interest to be collected from 40% to 45% (resulting in a one-off positive capital impact potentially up to an additional 1% approximately, of our Total Capital Ratio). As of December 31, 2016, the CET1 ratio and Total Capital Ratio of the Group, restated as of that date in order to take into account the issuance of the 2027 Notes, were equal to 14.1% and 19.5%, respectively.

The abovementioned measures are aimed at strengthening our own funds in order to mitigate the impact of the DBRS downgrade and, in particular, at maintaining the 15% Total Capital Ratio target autonomously established by the Group.

Employees

The table below sets forth the number of employees of the Group at year end for the years ended December 31, 2016, 2015 and 2014.

	Year ended December 31,		
	2016	2015	2014
Senior Executives	23	12	10
Managers	100	60	50
Workers	286	116	91
Total	409	**188**	**151**

As of December 31, 2016, the Group had 409 employees, of which 202 are employed by us, and 23 by Farmafactoring España and 184 by the Magellan Group; of which 170 in Poland, 11 in Slovakia, and 3 in the Czech Republic. The Magellan Group has no trade unions and has not entered into any collective labor (or similar) contracts with its employees.

As of the financial quarters ended March 31, June 30, September 30 and December 31, 2016, the Group had 189, 372, 388 and 409 employees. It should be noted that from June 30, 2016, the employee total for the Group includes employees of the Magellan Group. As of June 30, September 30 and December 31, 2016, the employee totals for the Company and Farmafactoring España alone were equal to 204, 215 and 225 respectively.

As of December 31, 2016, the Company had 196 employees in Italy, of which 187 were on indefinite term contracts, 6 with determined term contracts and 3 interns.

Our full-time employees are normally employed under contracts of indefinite term. Since under Italian law all employees must be part of a pension scheme, we provide a pension scheme for our employees as well as a supplemental pension scheme for our executives.

Under Italian law, upon termination of an employment, employees are entitled to severance pay (*trattamento di fine rapporto*) based on their annual salary, the length of their employment and the rate of inflation. As of December 31, 2016: (i) our provision for employee severance indemnities totaled €800,877.67, (ii) the employee severance indemnities paid to our supplementary pension fund amounted to 2,509,470.81 and (iii) the employee severance indemnities paid to the Italian social security service ("**INPS**") amounted to €776,197.35.

Shareholding and stock option plan

On February 13, 2017, following the Remuneration Committee's recommendation, the Board of Directors for the Company identified, out of the senior executives, executives, risk takers and board members, the beneficiaries and the maximum number of shares to be allocated to each one according to their tranche, in line with the stock option plan approved at the extraordinary shareholders' meeting on December 5, 2016. The Company's extraordinary shareholders' meeting also specified that (i) if the capital increase is not wholly subscribed to within the final deadline of 12 years after December 5, 2016 such capital increase will remain limited to the subscriptions received as of such date; and (ii) the Board of Directors has been granted greater powers to fix the issue price of the shares (including share premiums). The Board of Directors has also been given the power to decide the other terms and conditions for the execution of the share capital increase, in line with those set out in the stock option plan, as well as amending the Company's By-laws in order to increase the share capital following the implementation of the stock option plan.

In the same meeting, the Board of Directors resolved to grant, with effect from the Trading Date, (ii) a number of options from the first tranche to the CEO and executives of the Group and (ii) the power to the CEO to allocate a certain number of options to other employees.

The plan provides for the assignment of a maximum of 8,960,000 options in three tranches, each of which gives the beneficiaries the right to subscribe to a newly-issued ordinary share or to purchase an ordinary share (with the regular payment of dividends and no nominal value) in our portfolio at the time the option is exercised (taking into account the number of fractional shares).

The plan provides for: (i) a maximum of 6,720,000 shares to be assigned in the first tranche (75% of total shares); (ii) a maximum of 2,240,000 shares to be assigned in the second tranche; and (iii) a maximum of 2,240,000 shares to be assigned in the third tranche.

In relation to the shares assigned from the first tranche, the following shares have been assigned to Principal Executives and executive directors, effective as of the Trading Date: (i) Massimiliano Belingheri 1,344,000 shares; (ii) Luciano Seminara 201,600 shares; (iii) Carlo Zanni 201,600 shares; (iv) Roberto Castiglione 201,600 shares; and, (v) David Calvet Canut 117,600 shares.

Each option gives the beneficiaries the right to subscribe to newly issued ordinary shares of the Company, or to purchase one ordinary share (with regular rights, without par value) in the Company's portfolio, at a price per share for the first tranche determined by the Company's share price as of the Trading Date, plus 8% per annum and net of dividends distributed after the Trading Date until the options vesting date. The exercise price of the options awarded in the second and third tranche will be determined according to the Company's capitalization (based on the closing prices) in the 60 days before they were granted, plus an annual interest of 8% from the grant date until the vesting date, minus the dividends paid from the grant date until the vesting date.

Beneficiaries

The identification of beneficiaries and the grant of options is carried out by:

(a) the Board of Directors, after receiving the opinion of the Remuneration Committee, with regards to senior executives, managers and directors; and

(b) the Chief Executive Officer in all other cases, provided that the Chief Executive Officer may only grant to beneficiaries that are not executives or directors options which have not already been granted by the Board of Directors, within the limits of the powers delegated to him and up to a maximum amount determined by the Board of Directors for the relevant categories of shares;

The Board of Directors has agreed to assign shares from the first tranche to 14 beneficiaries for a total of 3,323,200 shares, with the residual 3,376,800 shares remaining available to the CEO to distribute to beneficiaries that are not executives or directors.

Management of the plan

The stock option plan provides that the Board of Directors, on the proposal of the Remuneration Committee, must fix the management requirements (including the determination of the option exercise price based on the formula set out in the stock option plan) in accordance with our remuneration and incentive policy, for members of the corporate bodies in charge of strategic supervision, management and control and our employees, and any applicable law.

For more information regarding the beneficiaries of our stock option plan, please see "*Management—Compensation—Compensation and benefits for each member of the Board of Directors, Supervisory Board and control bodies*".

Assignment

The number of options granted within each tranche to each beneficiary must not exceed the 2:1 ratio between the variable and the fixed remuneration components for the risk takers at the Group level save for the Heads of the Control Functions (as defined by the Bank of Italy) (*Responsabili della Funzione di Controllo*) whose cap is set to 33%, in accordance with applicable regulations and our remuneration policy. The variable remuneration component will be calculated taking into account the value of the options at the time they are granted and any other variable remuneration component, excluding any discretionary pension benefits, due to the relevant beneficiary in the same year.

For each beneficiary classified as a risk taker, the variable component of any remuneration paid in financial instruments (which is determined by taking into account the value of the options at the time they are granted and of any other financial instrument allocated as variable remuneration) shall be equal to at least 50% of the total variable remuneration of such beneficiary. The component of the variable remuneration to be paid in financial instruments to risk takers must not, in each year, be lower than 50% of the total variable remuneration of such beneficiaries. If the threshold is not met, the Board of Directors, when determining the variable remuneration for the relevant year, shall convert part of the variable remuneration paid in cash into our shares or (at the discretion of the Board of Directors) into Tier 2 subordinated debt instruments.

The grant of the options is either free or for a consideration. Acceptance into the plan will be notified in writing to each beneficiary with an indication of:

(a) the number of granted options and the relevant tranche;

(b) the mechanism for the determination of the exercise price;

(c) the exercise period.

The acceptance of a beneficiary into a tranche of the plan does not mean that they will be automatically accepted into the next tranche;

(a) *Vesting*: the options granted under each tranche will mature starting from 12 months after they were granted, subject to various detailed conditions of the plan which assume: (a) a lasting employment relationship with the Group and/or the Board of Directors; and (b) an appropriate level of capital and liquidity resources necessary to perform the activities and compliance with other, including regulatory, criteria. The verification before each vesting date (as defined in the plan) of any malus and claw back events set out in the plan will result in the loss of all options granted and not yet matured for the relevant beneficiary.

(b) *Malus and clawback*: the options are subject to *ex-post* correction mechanisms (*malus* and /or claw back) which, upon the occurrence of certain events, will cause the loss and/or restitution of any rights granted under the plan;

(c) *Funding*: we have the option to assess whether to potentially grant loans: (a) at market conditions for the subscription and /or purchase of shares, to our employees; (B) at the official ECB reference rate applicable at the time the loan is granted, for the purposes of financing the payment of income taxes due by the beneficiary in the event that the option to convert a portion of the variable remuneration paid in cash (equal to 50% of the difference between the variable remuneration paid in cash and the variable remuneration paid in financial instruments) into our shares or Tier 2 subordinated debt instruments is exercised.

As of the date hereof, the options related to the aforementioned stock option plan have not been assigned yet; accordingly, save for the amount of preferred shares referred to below, shares and/or options on Company's shares have not been granted to members of the Board of Directors and Principal Executives (the "**Principal Executives**").

Pursuant to the agreement entered into on October 21, 2016, certain member of Company's Board of Directors, of its subsidiaries, and other Managers are entitled to receive from BFF Canada shares of the Company in change for the shares they already own in BFF Lux. For further information, see "*Principal and Selling Shareholder—Investment agreement between the Selling Shareholder, BFF Canada and the Managers*".

Phantom Share Plan

On January 26, 2017, the Board of Directors submitted a new Phantom Share Plan for certain beneficiaries (the "**Beneficiaries**")—namely the risk takers, beneficiaries of the *Management by Objectives* plan for 2016 ("**MBO 2016**"), whether employees or board members of the Company or the Group whose work has a substantial impact on the risk profile of the Company or the Group—(the "**Phantom Share Plan**"), to the shareholders meeting for approval. The shareholders meeting approved the Phantom Share Plan on February 13, 2017.

In order to take into account the Company's new qualification as an intermediate bank, the Phantom Share Plan incorporates the MBO 2016, as a result of the Group's business strategy and Magellan Acquisition, which requires that part of the variable remuneration for Beneficiaries of the Phantom Share Plan must be in the form of shares and financial instruments (whether up front or deferred). The shares are assigned through an allocation mechanism, to which the relevant plan is then added. See "*Management—Compensation—Compensation and benefits for each member of the Board of Directors, Supervisory Board and control bodies*."

The Phantom Share Plan determines the allocation of the aforementioned financial instruments, known as Phantom Shares (the "**Phantom Shares**"). In particular:

- The Phantom Share Plan provides that the Beneficiaries of the Phantom Share Plan who are allocated the Phantom Shares, have the right to collect a certain amount of money, within the deadlines established, determined by the Group's share price, within the limits on shareholdings and liquidity as set forth in the Remuneration Policy.
- The variable remuneration for the Beneficiaries of the Phantom Share Plan, subject to meeting certain qualitative and quantitative targets, is disbursed as follows:
  (i) 70% up front: of which 75% is paid in cash and 25% through the allocation of Phantom Shares, which mature and can be liquidated after a year (the retention period); and
  (ii) 30% deferred: of which 75% in cash and 25% through the allocation of Phantom Shares which, after a deferral period of three years, mature and can be liquidated after a further retention period of six months.

The liquidation of the Phantom Shares is conditional upon the continued employment of the Beneficiary of the Phantom Share Plan by the Company. However, the Board of Directors and the Remuneration Committee may consider the Phantom Share to be still valid in the case of cessation of employment for a reason other than just cause (*giusta causa*) (*i.e.* anything that prevents continued employment, even temporarily).

- Malus and clawback: the options are subject to *ex-post* correction mechanisms (*malus* and /or claw back) which, upon the occurrence of certain events, will cause the loss and/or restitution of any rights granted under the plan.

The Phantom Share Plan will become effective pursuant to the structure and the timings set out by the plan and will not be renewed during the period following the Trading Date. After the Trading Date, the financial instruments identified by the Remuneration Policy, currently stock options and shares, will be reimbursed. As of the date of this Offering Circular, the value of the allocated Phantom Shares is equal to €531,128. Their relative value will vary in relation to the Group's increased share capital, including dividends and net of some capital increases.

It should be noted that all of the Principal Executives are due to be included amongst the Beneficiaries of the Phantom Share Plan. The variable remuneration for each for the financial year ended 2016 are as follows: (i) Massimiliano Belingheri has been assigned Phantom Shares equal to €174,250 as of the date they were assigned; (ii) Luciano Seminara has been assigned Phantom Shares equal to €13,810 as of the date they were assigned; (iii) Carlo Zanni has been assigned Phantom Shares equal to €33,640 as of the date they were assigned; (iv) Roberto Castiglioni has been assigned Phantom Shares worth €35,790 as of the date they were assigned; and (v) David Calvet Canut has been assigned Phantom Shares worth €7,772 as of the date they were assigned.

Agreements for the participation of employees in our share capital

On November 27, 2015, our Board of Directors resolved upon the "*Report on proposed amendments to the bylaws*", which was subsequently supplemented on December 21, 2015 (the "**Report**"). The Report was drawn up in accordance with article 2, Section II, Chapter I, Title III of the "**Supervisory Guidance to Banks**" (*Istruzioni di Vigilanza per le Banche*). On December 23, 2015 we submitted the Report for the Bank of Italy's authorization pursuant to article 56 of the Consolidated Banking Act, and on January 19, 2016 we submitted a supplemented draft of the Report.

The proposed amendments to our By-laws relate to our intention to grant for no consideration, through a share capital increase also for no consideration, on a one-off basis and without any performance objective, special shares (the "**Special Shares**") to all of our employees, in order to motivate them and strengthen their loyalty and sense of belonging to our Group, and to align their interests with those of our shareholders (the "**Stock Grant Plan**").

We obtained the Bank of Italy's authorization of the Report on April 6, 2016, pursuant to articles 56 and 61 of the Consolidated Banking Act.

On May 18, 2015 our Shareholders' meeting approved: (i) the Stock Grant Plan, (ii) the share capital increase for no consideration, pursuant to article 2349 of the Italian civil code, up to a maximum of €134,750.00, corresponding to a maximum number of Special Shares equal to 1,750, using the "retained profits" reserve as recorded in our most recently approved financial statement, to be granted in a single tranche by June 30, 2016, and (iii) amendments to our By-laws to implement the Stock Grant Plan.

The share capital increase for no consideration was registered with the Companies' Register of Milan on June 22, 2016 and the Special Shares were granted for no consideration, with valuation date falling on May 31, 2016, to our employees (including part-time employees) employed under contracts of indefinite term who have passed an initial trial period and meet certain subjective requirements. In particular, such employees must not have (i) any disciplinary proceedings pending against them which could result in the termination of their employment or (ii) any first degree conviction in legal proceedings relating to their employment which could result in the termination of their employment, or to a breach of our Code of Ethics principles (the "**Subjective Requirements**").

Apart from the data set out below, no special shares or stock options have been assigned to the members of the Board of Directors and Principal Executives.

As of the date of this Offering Circular, we have issued 1,074 Special Shares.

All Principal Executives, with the exception of Mr. Massimiliano Belingheri, hold 6 special shares each.

The Special Shares carry no voting rights and only give shareholders the right to receive, *pro rata* to the number of Special Shares held by them, a percentage of our total profits and any other distribution, excluding any distribution of the share premium reserve or any return of capital to ordinary shareholders.

Our Stock Grant Plan envisages an automatic mechanism for converting Special Shares into ordinary shares, in the 1:1 ratio between ordinary shares and Special Shares, in the event of: (i) sale by our current majority shareholder of its holding in the Company; (ii) listing of our ordinary shares on a regulated market; and (iii) redemption of Special Shares by our ordinary shareholders, if the beneficiaries no longer meet the Subjective Requirements.

The Special Shares cannot be transferred in the first three years following the date of grant. At the end of the initial three year period, if none of the events for automatic conversion have occurred, beneficiaries will only be able to transfer the Special Shares to another employee who satisfies the Subjective Requirements.

The 2013-2015 incentive program for Magellan's management board members

On August 12, 2013, Magellan's supervisory board adopted an incentive program for the management board members of companies of the Magellan Group. The following managers participated in the scheme: Rafał Skiba, Urban Kielichowski, Krzysztof Kawalec, Grzegorz Grabowicz and Radosław Moks.

The incentive program was carried out from 2014 to 2016 for performance objectives achieved from 2013 to 2015, *provided that* the leverage level of the Magellan Group did not exceed 4.5.

Under the incentive program, beneficiaries were awarded options in the form of conditional property rights. The maximum number of options was 64,500. The total amount of payments to beneficiaries could not exceed PLN 5,000,000.

Options were only exercised if the EPS was equal to or greater than 5%. The number of options which was exercised varied depending on the EPS level. The bonus was calculated according to the formula: bonus = (the number of individual options per year) * (the value of the base instrument). The value of the base instrument had a cap of: (1) PLN 62.5 for 2013; (2) PLN 72 for 2014 and (3) PLN 82.50 for 2015.

The bonus was only paid if the beneficiary remained in Magellan under any type of legal relationship (except for termination of the employment contract for reasons other than disciplinary dismissal) as follows: (i) from September 1, 2015 to October 15, 2015, 50% of the bonus due for 2013-2014 would be paid; and (ii) from September 1, 2016 to October 15, 2016, the remaining amount of the bonus due for 2013-2015 would be paid.

The incentive program was implemented via individual option agreements entered into with beneficiaries (on the basis of supervisory board resolutions).

Beneficiaries were awarded up to 64,400 options (under one agreement, 33,900 options were awarded), which gave them the right to the payment of a bonus. Individual options could not be disposed of by individuals. The options could only be exercised by Magellan making a cash contribution to beneficiaries. The total amount of payments to beneficiaries could not exceed PLN 1,200,000 (under one agreement, PLN 1,600,000 was paid).

The objectives for 2015 were not reached and additional bonuses under this program were not paid out in 2016. The plan is no longer in force.

Intellectual Property, Licenses & Trademarks

The Group owns thirteen registered trademarks in the European Union, four in Italy, three in Poland and one in three countries (Spain, Portugal and Poland). We also own 82 domain names and twelve licenses for maintenance and update of software. We do not own any patents.

Property, plant and equipment

Properties owned

As of December 31, 2016, we owned the following properties:

Owner	Location	Intended use
Banca Farmafactoring	Milan-Via Domenichino No. 5	Operational headquarters, registered office
Banca Farmafactoring	Rome-Via Bertoloni No. 1/E	Operational headquarters

In addition, we hold a surface right over three parking spaces in a multistory car park in Rome, Largo Pizzetti No. 5/6, exclusively related to our offices in Via Bertoloni No. 1/E.

As of December 31, 2016, our properties are free from any encumbrance that might have a negative impact on their use.

Owner	Location	Intended use
Magellan S.A. . . .	Jacków, the municipality of Daszyna-Plot no. 18/1	Agriculture and pasture
Magellan S.A. . . .	Walew, the municipality of Daszyna-Plot no. 112/2	Arable land and permanent pasture
Magellan S.A. . . .	Koźliny, the municipality of Suchy Dąb-Plot no. 370 (22/100 part of the plot)	Agricultural land, permanent meadowlands, area of agricultural crops, complete prohibition of building with the exception of the construction of equipment and technical infrastructure
Magellan S.A. . . .	Łapanów, the municipality of Łapanów-Plot no. 450/4, 445/5, 273/36	Sport services, tourist services, forests
Magellan S.A. . . .	Brzezowa, the municipality of Łapanów-Plot no. 91/29, 91/36, 92/3, 93/2, 93/4, 94/10, 94/12, 95/4	Sport services, tourist services
Magellan S.A. . . .	Brzezowa, the municipality of Łapanów-Plot no. 91/37	Sports services, arable land, wooded land, roads
Magellan S.A. . . .	Brzezowa, the municipality of Łapanów-Plot no. 95/8, 95/9	Sport services, tourist services, shelterbelts areas, riversides areas, mid-fields areas, woodlands with special natural values
Magellan S.A. . . .	Krośnice, the municipality of Krośnice-Plot no. 508/135	Roads, leisure facilities, urbanized underdevelopment areas, timberlands, other build-up areas, offices
Magellan S.A. . . .	Duszniki Zdrój, the municipality of Duszniki-Zdrój-Plot no. 21/3	Arable land, pasture-class no. 6, leisure facilities, urbanized underdevelopment areas, roads, ditches
Magellan S.A. . . .	Duszniki Zdrój, the municipality of Duszniki-Zdrój-Plot no. 71/2	Forests, pasture-class no. 5 and 6
Magellan S.A. . . .	Duszniki Zdrój, the municipality of Duszniki-Zdrój-Plot no. 98/5	Permanent pasture, land
Magellan S.A. . . .	Duszniki Zdrój, the municipality of Duszniki-Zdrój-Plot no. 98/6	Arable land, pasture-class no. 5 and no. 6, house constructions
Magellan S.A. . . .	Poznachowice Górne, the municipality of Raciechowice-Plot no. 237/1	Other building area, orchard
Magellan S.A. . . .	Poznachowice Górne, the municipality of Raciechowice-Plot no. 192/1	Other building area
Magellan S.A. . . .	Poznachowice Górne, the municipality of Raciechowice-Plot no. 640/17, 640/20	Arable land

Magellan owns real property acquired under sale and lease back products offered to local government units. The table below sets forth the properties owned by Magellan:

Some of the real properties owned by Magellan, approximately 50%, are classified as agricultural land. Any possible future disposal of such agricultural properties by Magellan (or the Group in general) or shares in Magellan must be completed in accordance with the Polish Act on Shaping the Agricultural System (Journal of Laws 2012, item 803 as subsequently amended) pursuant to which any:

(i) disposal of agricultural real property (unless disposed in favor of a local government unit, State Treasury, Polish Agricultural Real Properties Agency or legal persons acting under the provisions on the relation of the State to the Roman Catholic Church in the Republic of Poland, on the relation of the State to other churches and religious associations, and on guarantees of freedom of faith and conscience); or

(ii) corporate restructuring of, or disposal of shares in the owner of any agricultural real property, excluding shares of listed companies.

requires notification to the Polish Agricultural Real Properties Agency. Any such transaction is subject to the preemptive rights of the Polish Agricultural Real Properties Agency, who upon exercise of their preemptive rights, can acquire such agricultural property or the shares, respectively.

Plant and Equipment

The plant and equipment we use in our business are limited to IT infrastructure, which is essential for the type of services we provide.

Leased properties

As of December 31, 2016, we leased the following properties from third parties:

Tenant	Location	Intended use	Lease maturity date	Annual rent
Banca Farmafactoring	Milan-Via Meravigli No. 16	*Pro-tempore* apartment for employees or directors	May 14, 2018[(1)]	€20,580.00
Banca Farmafactoring	Milan-Via Mosè Bianchi No. 6	Office[(2)]	September 30, 2020[(3)]	€443,485.73[(4)]
Farmafactoring España	Madrid-Calle Luchana No. 23	Registered office, office	April 14, 2017	€50,880.00
Farmafactoring España	Barcelona-Calle Mestre Nicolau No. 19	Farmafactoring España-Operational headquarter. Spanish branch-Registered office	July 25, 2021	€39,600.00
Farmafactoring Sucursal España	Madrid-Calle Luchana No. 23	Registered office, office	April 15, 2018	€26,862.50
Magellan S.A.	Łódź-Aleja Piłsudskiego 76	Registered office, office	July 19, 2021	€197,000.00[(5)]
Magellan Czech Republic	Roztylská 1860, Prague 4-Chodov	Business	Not defined	€3,736.80[(6)]
Magellan Czech Republic	Nádražní 29/21, Prague 5-Smíchov	Residential	June 30, 2018	€11,100.00
Magellan Central Europe	Savoy Courtyard Building, Mostová 2, 811 01 Bratislava	Offices	Not defined	€37,012.32 + €14,138.52 as expenses[(7)]

(1) The lease agreement expressly provides for its automatic renewal, in favor of the Company, for an additional 4-year period.

(2) With respect to this property, we entered into (i) a service agreement regarding the facility management and (ii) separate lease agreements for two areas located at the third, fourth and fifth floors.

(3) Pursuant to article 28 of law No. 392/1978, the lease agreement is automatically renewed for an additional 6-year period, unless the landlord refuses to renew the agreement, *provided that* the limits indicated in article 29 of law No. 392/1978 are respected.

(4) The annual rent includes the costs for facility management services and utilities.

(5) The annual rent will increase to €214,000.00 starting in January 28, 2017.

(6) The annual rent will increase to €6,585.60 starting in 2017.

(7) The amounts are not comprehensive of VAT.

Magellan's main office in Łódź is held under a lease agreement. Magellan subleases this office to MEDFinance S.A. and Magellan Group's law offices (Kancelaria Prawnicza Karnowski i Wspólnik Spółka Komandytowa).

In addition, in 2015 we paid rent of €9,398.44 and €2,295.87, respectively, on two parking spaces at our offices in Madrid (Calle Luchana no. 23) and Barcelona under two tacitly renewable lease agreements.

Following the lease agreement executed on July 25, 2016, Farmafactoring España paid an annual rent of €3,600.00 on another parking space at the Barcelona office (Calle Mestre Nicolau No. 19).

Magellan Central Europe holds two parking lots (with the option to lease further three lots) at the Bratislava office under the relevant lease agreement, the duration of which is connected to the lease agreement concerning the Bratislava offices for an annual fee equal to €18,720.00 plus VAT for each of the parking lots.

We have also entered into a service agreement regarding the implementation of our disaster recovery plan, which sets out the procedures that would be necessary in order to restore an adequate number of workstations in the event that our Milan headquarters become unavailable. At the business recovery site in Brunello (Varese), Via Pret No. 1, 21020 we have: (i) 80 workstations for the first 24 hours and an additional 80 workstations for the following 24 hours, (ii) an IP-specific network, (iii) standard office equipment (telephones, 16 incoming and outgoing urban lines, laser and inkjet printers, a large printer, fax machines, photocopiers, 4Mbits internet access. We are able to access through our terminal server technology the applications and corporate data managed at the disaster recovery data center in Via Darwin No. 85 in Settimo Milanese (Milan) at the BT Italia server farm. In particular, our sites and technological infrastructure include:

(a) Data Center 1 "primary" at our Milan offices in Via Domenichino No. 5;

(b) Data Center 2 "primary" at Via Darwin No. 85 in Settimo Milanese (Milan), at the BT Italia server farm;

(c) recovery logistical site for our operational workstations at Via Pret 1 in Brunello (Varese) at the Business Recovery Center (BRC) of Elmec Informatica, used as a back-up should the Milan headquarters in Via Domenichino 5 and/or Via Moose Bianchi 6 become unavailable;

(d) our MPLS network that connects our offices with our Data Center.

In addition, pursuant to the CSE Outsourcing Contract, we are entitled to use the following vacant sites and technological infrastructure made available by CSE, if necessary, in order to guarantee operational continuity and prevent potential emergency situations:

(a) Data Center 1 "primary" in San Lazzaro di Savena, Via Emilia No. 272;

(b) Data Center 2 "primary" in San Lazzaro di Savena, Via Emilia No. 272;

(c) Data Center 3 "secondary" in Modena, Via Aristotele No. 195 at BPER's headquarters.

(d) CSE's MPLS network that connects our offices and Data Center with CSE's Data Center.

In addition, pursuant to the RSI Outsourcing Contract, we are entitled to use the following vacant sites and technological infrastructure made available by RSI, if necessary, in order to guarantee operational continuity and prevent potential emergency situations:

(a) Data Center 1 "primary" in RSI Sociedad Civil a Tres Cantos, Avenida de la Industra No. 23;

(b) Data Center "secondary" in Docalia Sociedad Limitada ad Alcobendas, Avenida Penalara No. 35.

Furthermore Magellan uses a data center located in Lodz, Aleja Piłsudskiego 76. A project for the migration of the systems in Magellan's data center with our data centers located in Milan and Settimo Milanese is currently underway.

Environmental issues

As of the date of the Offering Circular, we are not aware of any environmental issues arising from the use of our tangible assets.

Legal Proceedings

We are involved in a number of legal proceedings arising in the ordinary course of our business. We assess the potential losses that we could incur in connection with pending legal proceedings and make provisions in application of prudential criteria. In the year ended December 31, 2016, we made provisions of an aggregate amount of €2,075 thousand to cover risks and charges. Although we believe that such amount is adequate, in the event that any losses resulting from legal proceedings exceed such amount, this could have a material adverse effect on our business, financial condition and results of operations.

Below is a brief description of the most material legal proceedings to which we are a party.

Litigation with Eurospital S.p.A.

On January 14, 2009 Eurospital S.p.A. ("**Eurospital**"), a former shareholder of Confarma, brought a claim against us and the then chairman of the board of directors of Confarma before the Court of Milan, requesting compensation for damages in connection with the divestment of its shareholding in Confarma. Eurospital argued that at the time it determined the price of and sold its shareholding in Confarma to DB Zwirn & CO., it was unaware of the ongoing tender offer process relating to the majority shares in Confarma, as the defendants unlawfully withheld such information from them. Eurospital therefore claimed compensation for damages amounting to €1.9 million, equal to the difference between the price received for its shareholding in Confarma and the price paid by Apax Partners to the remaining shareholders of Confarma for the majority shares in Confarma.

On October 5, 2011, the Court of Milan ruled that we and the then chairman of Confarma were liable to pay compensation for damages of €2 million, plus: (i) an adjustment for the currency revaluation since December 2006, (ii) interest on €2,080,000 accruing from December 2006 to the date of payment and (iii) litigation expenses equal to €45,131.87. However, on May 27, 2014, the Court of Appeal of Milan ruled in our favor and therefore dismissed Eurospital's claim and ordered Eurospital to reimburse us for litigation expenses incurred by us in both proceedings.

In July 2014, Eurospital appealed to the Italian Supreme Court against the decision of the Court of Appeal of Milan and in October 2014, we filed a counterclaim. The proceedings before the Italian Supreme Court are currently pending.

We believe that the ruling of the Court of Appeal of Milan is accurate and that, while there is a risk of losing the case, it currently does not seem probable that the Italian Supreme Court will overturn the Appeals Court decision. Accordingly, we have not made any provisions in our financial statements to cover potential losses related to this dispute.

Litigation with A.O. Cannizzaro of Catania

A.O. Cannizzaro of Catania ("**A.O. Cannizzaro**") summoned the Company to appear before the Court of Catania at the hearing set on November 10, 2016. The next hearing is set for July 3, 2017.

The reasons for initiating this lawsuit consist in the contested existence of the receivables (equal to €10 million, €5.7 million of which have already been paid during the course of the proceedings) in relation to which a payment reminder was sent on March 27, 2016 with which we asked for the payment of both the receivables purchased on a non-recourse basis and the receivables managed on behalf of our clients. More specifically, the claimant has asserted that: (i) the receivables have already been paid; (ii) the relative assignment to us of the receivables was not accepted; (iii) the receivable is time-barred; (iv) the competent Court is not the Court of Milan but the Court of Catania.

We are involved in such proceeding both as purchaser of receivables on a non-recourse basis and as manager of the receivables of our clients on behalf of them. The negative assessment action brought by A.O. Cannizzaro is a unique case in the history of our factoring business and we believe that the risk of losing the case is not probable, even if remotely possible (also considering that we are currently trying to negotiate a settlement).

Tax proceedings

Tax assessment related to capital expenditure during 2009

In 2009, the Italian tax authorities started a tax investigation on us in respect of the fiscal year ended December 31, 2006. The Italian tax authorities subsequently extended their assessment (only with reference to costs occurred in order to increase the value of properties) to other fiscal years still assessable (2004, 2005, 2007, 2008 and 2009). During the tax investigation, the Italian tax authorities concluded that we were liable to pay higher taxes for several of the years in question. In 2014, we reached a settlement with the Italian tax authorities in respect of the amounts owed for the other years in question (from 2005 to 2009) and we paid €603,341 in total. With reference to fiscal year 2004, we have filed an appeal before the relevant tax courts and, as of the date of this Offering Circular, we are waiting for the Supreme Court of Cassation's verdict. Previously the provincial tax commission of Milan upheld our appeal, whereas the regional tax commission of Milan upheld the appeal filed by the Italian taxation authority. Therefore in 2013, we paid the tax authorities €343,579 in order to appeal. In the light of such litigation, we have made a provision of a contingent asset in our financial statement for a total amount of €145,874 for the case of a negative verdict from the relevant authority.

In 2015, we received tax assessments, related to the same issue challenged by the Italian tax authority during the tax investigation carried out in 2009, indicating potential additional amounts concerning both IRES and IRAP in respect of the fiscal year ended December 31, 2010. On January 14, 2016 we submitted a tax settlement proposal to the Italian tax authorities, which as of the date of this Offering Circular is still ongoing.

In relation to the abovementioned tax settlement proposal, for the fiscal year ended December 31, 2010 we have paid: (i) an amount of IRES equal to €26,606 and (ii) an amount of IRAP and interest equal to €4,668. Furthermore, with the Italian tax authority we have agreed that we may request a refund for €10,772 of the amount we have paid. As of the date of this Offering Circular, we have filed the request for such refund and we are waiting for the relevant departments to provide us with their reply.

Tax assessment concerning the depreciation of costs related to maintainance operation during 2014

In 2014, the Italian tax authorities started a tax investigation in respect of the fiscal years ended December 31, 2010 and 2011, at the end of which they issued an assessment report in which they imposed: (i) a higher taxable base for corporate income tax ("**IRES**") purposes equal to €1,110,014 and (ii) a higher taxable base for additional local tax ("**IRAP**") purposes equal to €196,679 for the fiscal year ended December 31, 2010.

The abovementioned tax litigation refers to arrangements for taking into account fiscal depreciations of (not recurring) costs incurred in the period from 2002 to 2004 in relation to an important maintainance operationconcerning certain property which we own.

In relation to the abovementioned tax assessment, in 2015 we paid: (i) an amount of IRES equal to €356,067 for the fiscal year ended December 31, 2010 and €38,872 for the fiscal year ended December 31, 2011 and (ii) an amount of IRAP and interest equal to €10,731 for the fiscal year ended December 31, 2010.

Concerning the direct taxes we have paid (equal to €251,167 and for which we have filed a refund request) we have booked a tax credit for the relative amount in our financial statement.

Bank of Italy Inspections

In 2015 and 2016, we were subject to inspections by the Bank of Italy pursuant to Articles 54 and 68 of the Consolidated Banking Law.The Bank of Italy inspection was carried out between February 5 and April 22, 2015 and the relative report (the "**Report**") was delivered to us on July 15, 2015. No sanctions were applied as a result of this inspection, nor were any questions raised concerning compliance irregularities. In particular, the inspection ended with relatively favorable opinion, to be inserted (as indicated in the Report) in the wider context of the periodical prudential review process. After acknowledging our contained level of credit risk, solid capital base and high profitability, the Report indicates certain spaces for improvement concerning management, with particular regard to strategies and governance and control systems, to the credit process, as well as to operational and reputational risks. On September 10, 2015, we sent to the Bank of Italy a follow-up report in which we set out all our implemented and planned activities.

In addition, between August and December 2016, we were subject to an inspection carried out by the Bank of Italy in relation to loans granted by the Company to the Bank of Italy through the ABACO platform to secure financing transactions of the Eurosystem. The Bank of Italy confirmed the positive outcome of the inspection by notice received on December 22, 2016. The inspection brought to light certain discrepancies between the dates on which the loan agreements were signed and the dates on which the loans were issued, which however did not affect the Bank of Italy's assessment of eligibility of the loans. On January 12, 2017, we informed the Bank of Italy that we had corrected such discrepancies.

Additionally, we are subject to annual SREP reviews. Following the conclusion of the annual SREP process, on March 10, 2017, we received a Bank of Italy communication with which the same regulatory authority informed us of the initiation of the administrative procedure concerning the adoption of a capital decision for the provision of capital requirements with which we shall have to comply in addition to the minimum level of requirements relating to the Group's overall exposure to risks. Said procedure shall have a 90-day duration, starting from 10 March 2017 (unless such term is suspended or interrupted in accordance with the applicable provisions of the current legal framework). Within the first half of said 90-day term, we may submit statements and documents, which the Bank of Italy may take into consideration for the purposes of a possible amendment of the abovementioned requirements.

In particular, with the abovementioned communication, the Group (with reference to the consolidation perimeter for the purposes of the CRR) has been requested to comply with the following minimum capital ratios, each of which including the capital conservation buffer component: (i) 6.55% in relation to the Common Equity Tier 1 ratio, previously set at 7.3%; (ii) 8.35% in relation to the Tier 1 Ratio, previously set at 9.8%; and (iii)10.75% in relation to the Total Capital Ratio, previously set at 13.0%. The new minimum capital ratio levels shall apply from the date of the first report filed with the regulatory authority following the conclusion of the procedure. Moreover, with regard to the Banking Group, the aforementioned capital ratios shall not be affected by the commencement of trading of the Offer Shares.

Furthermore, in accordance with the recent EBA guidelines, the Bank of Italy also determined further capital levels (so called "capital guidance") that we are expected to meet, for the purpose of ensuring that the minimum capital requirements are complied with also in the event of a downturn in the economy and finance sector. In particular, given the increased exposure to risks in distressed conditions, the Bank of Italy expects us to fulfil the following capital guidance levels: (i) 0.55% in relation to the Common Equity Tier 1 ratio; (ii) 0.75% in relation to the Tier 1 Ratio; and (iii) 1% in relation to the Total Capital Ratio. For the sake of clarity, the capital guidance does not represent a binding capital requirement and, as stated in the EBA communication dated July 1, 2016, it may not automatically entail a limitation to the determination and distribution of dividends for the relevant entity. In any event, the abovementioned capital guidance levels are also lower than the capital targets already identified by us which we voluntary intend to satisfy on a continuous basis in the future. As clarified by the Bank of Italy in the communication on the opening of the procedure aimed at adopting the SREP capital decision, the capital guidance therefore represents the expected level of additional capital buffers which we should satisfy and consists in an "early warning" signal to be used by the Company within the context of its risk management process. Should one of the capital ratios fall below the capital guidance levels described above, we shall submit a plan to the Bank of Italy designed to restore the expected level and realign our capital ratios to the capital guidance within a maximum period of two years. The new requirements and the new capital conservation buffer level shall apply from the first communication on own funds filed to the regulatory authority following the conclusion of the procedure.

The SREP process for the previous year was conducted in October 2015 to assess the appropriateness of our capital liquidity, organizational and management safeguards with respect to the risks we undertake as part of our banking activities. In January 2016, the Bank of Italy determined the minimum capital requirements with which we are required to comply. Our current and target capital levels are, in any event, higher than those required by the Bank of Italy.

Proceedings and claims by debtors

Bank of Italy complaints

22 debtors belonging to the public administration have filed complaints with the Bank of Italy due to reporting we submitted to the Bank of Italy reporting system (*centrale rischi*). As of December 31, 2016, the outstanding balance with those debtors is lower than 1% of our total exposure toward the public administration and therefore, even if all such complaints were resolved against us, this would not have a material impact on our purchase and collection of receivables. In the ordinary course of business, certain of our debtors refuse to acknowledge the assignment of their receivables.

As of the date of this Offering Circular, 437 final debtors refused to accept us as the assignee of receivables and none of the abovementioned debtors have been transferred to the Farmafactoring SPV.

Other claims

As of December 31, 2016, in relation to the purchases of receivables carried out in the period 2014-2016, we had ordinary course outstanding receivables claims from debtors of approximately €77 million representing 4% of the non-recourse capital exposure of the Company. The following table shows the outstanding receivables claims from debtors.

	As of December 31, 2016
	Outstanding (management-accounts) receivables claims
	(in € millions)
National Healthcare Service	40.2
Of which SPV I S.r.l	10.8
Public Administration	36.7
Of which SPV I S.r.l	—
Others	0.01
Of which SPV I S.r.l	—

As of December 31, 2016, Magellan's balance of receivables subject to court proceedings amounted to PLN 160,236 thousand, equivalent to 8% of their financial assets portfolio, compared to PLN 119,319 thousand as of December 31, 2015, equivalent to 7% of the portfolio of financial assets.

These litigations are primarily procedural matters where the hospitals or other debtors have made claims regarding the dates of invoices or other technical points, but pursuant to which they do not contest the amounts due for the receivables in question, but rather contest manner and timing. With respect to two litigations, however, with Warszawa Banacha and Warszawa Dzieciątka Jezus (representing approximately PLN 11.1 million and PLN 19.1 million, respectively), the hospitals claim that as a result of the financing received by the creditor from Magellan pursuant to Magellan's products, such financing effectively cancelled the debt owed to the creditor. The Polish Court of Appeal confirmed the earlier ruling of the first instance court, declaring that the hospitals' allegations on the fulfilment of benefits were unfounded. The case is still pending before the Polish Supreme Court.

Recent Developments

Expansion of our business in Greece

On February 2, 2017, we filed a notification with the Bank of Italy to offer factoring services—including the non-recourse factoring business starting from June 1, 2017—in Greece under the freedom to provide services. In line with our organic group strategy, we are considering offering a factoring services increase in relation to receivables towards Greek public healthcare entities. We expect that we shall receive the relevant authorization by the first half of 2017.

Magellan tax asset

The Magellan Management Board acknowledged that the merger of Mediona with Magellan would have generated a tax asset. However, on February 20, 2017, the Polish tax authority rejected our request to register the merger as a tax asset, but Magellan filed an appeal against such decision on March 6, 2017.

SUPERVISION AND REGULATION

A summary of the significant regulatory matters affecting our activities is set out below. The summary is not intended to provide a comprehensive description of all such regulatory matters and should not be considered exhaustive.

Italy

Overview of Regulations Applicable to Italian Banks

The main national provisions governing the conduct of banking activity in Italy are contained in Legislative Decree No. 385 of September 1, 1993, as amended (*Testo Unico Bancario* or the "**Consolidated Banking Act**").

The Consolidated Banking Act defines the role of supervisory authorities in Italy and contains provisions on the definition of banking activities, the authorization required for the performance of banking activities, the acquisition of relevant shareholdings in Italian banks, the scope of banking supervision and powers of supervisory authorities, the regime applying to foreign banks intending to operate in Italy, special insolvency and administration procedures for banks, "special" credit transactions, transparency obligations applying to the provision of banking and financial services and activities, supervision of banking groups and other types of financial institutions (including, *inter alia*, electronic money and payment institutions as well as financial intermediaries specialized in financing activities which are enrolled in the register kept by the Bank of Italy pursuant to section 106 of the Consolidated Banking Act). Additional provisions have been introduced in the Consolidated Banking Act through Legislative Decree No. 181 of November 16, 2015 for the purpose of implementing Directive 2014/59/EU (the "**BRRD**").

In addition to the Consolidated Banking Act, the most relevant provisions governing the performance of financial services by Italian banks are those set forth in (i) Consolidated Financial Act, which defines, *inter alia*, the rules governing the provision of investment services and activities and the regime applying to regulated markets and Italian listed companies, (ii) the Legislative Decree No. 11 of January 27, 2010 (the "**PSD Decree**"), implementing the "Payment Services Directive" No. 2007/64/EC, (iii) the Legislative Decree No. 231 of November 21, 2007, as amended and supplemented, on the prevention of anti-money laundering and terrorism financing (the "**AML Decree**"), implementing Directives No. 2005/60/EC and No. 2006/70/EC, (iv) the Law No. 108 of March 7, 1996, as amended and supplemented (the "**Usury Law**"), and (v) the Legislative Decree No. 209 of September 7, 2005 (the "**Code of Private Insurance**"), which govern the performance of insurance, reinsurance and insurance mediation services (including those performed by banks). Additional rules are then included in other decrees aimed at implementing EU legislation on banking matters, as better detailed below.

The provisions of the Consolidated Banking Act, the Consolidated Financial Act, the PSD Decree, the Usury Law and the Code of Private Insurance are further supplemented by the regulations issued by Italian supervisory authorities (on which see also below), which include, *inter alia*, (i) decrees issued by the Minister of Economy and Finance (*Ministero dell'Economia e delle Finanze* or "**MEF**"), (ii) resolutions adopted the Interministerial Committee for Credit and Savings (*Comitato Interministeriale per il Credito e il Risparmio* or the "**CICR**"), (iii) regulations adopted by the Bank of Italy, i.e. Italy's central bank and a part of the European System of Central Banks, (iv) resolutions and regulations adopted by CONSOB (i.e. the Italian Securities Regulator), and (v) regulations issued by IVASS (i.e. the Italian Insurance Regulator).

In particular, the main CICR resolutions concern, *inter alia*, (i) relevant shareholdings in banks, financial institutions, electronic money and payment institutions, (ii) the shareholdings that may be held by banks and banking groups, (iii) rules on related party transactions and (iv) rules on transparency of banking and financial services and products. The provisions included in the CICR resolutions are further implemented and detailed in the regulations issued of the Bank of Italy.

In this respect, the most relevant regulations of the Bank of Italy applying to Italian banks include, *inter alia*, (i) Circular No. 285/2013, setting out the Supervisory Provisions for Banks (*Disposizioni di Vigilanza per le Banche*) which is mostly aimed at implementing the CRD IV / CRR package and contains certain additional rules that are not harmonized at the EU level, (ii) Circular No. 263/2006 which has been largely replaced and partially recast in Circular No. 285/2013 but still contains some provisions applicable to Italian banks (e.g. rules on related party transactions), and (iii) Circular No. 229/1999, which has also been largely replaced by and partially recast in Circular No. 285/2013.

Furthermore, it is expected that pending completion of the implementation process of new EU legislation, future second level rules will be adopted such as in relation to the full implementation of the BRRD.

Italian regulatory and supervisory authorities

Under the Italian regulatory framework the following Italian authorities are in charge of regulation and supervision of Italian banks:

(a) the MEF, who is entrusted under the Consolidated Banking Act with the power to: (i) determine the eligibility requirements applying to shareholders of (and prospective purchasers of relevant shareholdings in) Italian banks, (ii) determine the eligibility requirements for (current or prospective) members of supervisory, management and control bodies and general managers of Italian banks, and (iii) upon proposal of the Bank of Italy, adopt certain resolution measures, including the imposition of the extraordinary management (*amministrazione straordinaria*) or compulsory liquidation (*liquidazione coatta amministrativa*) the CICR, which is composed of the MEF and other ministers responsible for economic matters, and has wide-ranging policy making and guidance powers and responsibilities;

(b) the Bank of Italy, which is the authority having the broadest supervisory powers in relation to Italian banks and operating as national resolution authority under the Italian provisions implementing the BRRD;

(c) CONSOB, as far as the rules relating to the provision of investment services are concerned; and

(d) IVASS, with respect to the performance by banks of insurance mediation activities.

In particular, pursuant to the relevant provision of the Consolidated Banking Act, the Bank of Italy is responsible to adopt regulations and instructions (for both individual banks and banking groups) in the following five areas: (i) capital requirements; (ii) risk management; (iii) shareholdings that may be acquired and held by Italian banks or banking groups; (iv) corporate governance, administrative and accounting functions and internal audit and remuneration policies and (v) banks' public disclosure requirements with respect to these matters.

Furthermore, under the Consolidated Banking Act certain transactions (such as for instance mergers, demergers or, subject to certain conditions, transfer of undertakings involving Italian banks, amendments to the by-laws, etc.) are subject to the prior permission of the Bank of Italy, which may also exercise additional supervisory powers *vis-à-vis* Italian banks, including the request of information, on-site inspections and imposition of sanctions. The provisions related to such powers must however be interpreted in the light of, and are applicable to the extent they do not conflict with, the rules under the legal framework of the Single Supervisory Mechanism. From November 4, 2014, the Bank of Italy's supervisory powers have been significantly reduced as the ECB assumed specific supervisory tasks in the framework of the Single Supervisory Mechanism, as described below.

The Bank of Italy also acts with governmental entities to prevent usury by conducting quarterly surveys to measure the "average overall effective interest rate" charged by banks and financial intermediaries according to the Italian Usury Law. The MEF publishes the results of these surveys, which are used as the basis for the calculation of interest rate limits (beyond which, interest rates are considered usurious, which may trigger criminal sanctions, as well as the possibility of the relative agreement being declared null and void).

In addition, the Financial Information Unit (*Unità d'Informazione Finanziaria* or "**UIF**") of the Bank of Italy is in charge of preventing money laundering and the financing of terrorist activities in accordance with the AML Decree.

Overview of the EU legal framework

New EU legislation has been enacted in recent years to regulate a number of significant aspects of the activities conducted by EU credit institutions (including Italian banks). The implementation of such EU legislation is still on-going and it is expected that the Italian regulatory framework will be further amended in the future. However, some of these EU provisions-in particular, those included in EU regulations, which are directly applicable in all EU Member States-do not require the adoption of any national implementing laws or regulations.

In such respect, the main EU provisions directly applicable to Italian banks are those set forth in Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013 setting out prudential requirements for credit institutions and investment firms ((“**CRR**”) which, jointly with Directive No. 2013/36/EU of the European Parliament and of the Council of June 26, 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the “**CRD IV**”), forms the so-called “**CRD IV Package**”). The CRD IV Package is aimed at implementing in Europe the rules defined under the Basel III framework and constitutes part of the “**Single Rulebook**”, i.e. a set of harmonized rules applying at EU level representing the legal foundation of the EU “**Banking Union**”.

The first pillar of the Banking Union consists of the “**Single Supervisory Mechanism**” or “**SSM**”, as set up under the SSM Regulation and SSM Framework Regulation (as defined below). The second pillar consists of the “**Single Resolution Mechanism**” or “**SRM**” established under the SRM Regulation (as defined below) and the BRRD. The third pillar will consist of the European Deposit Insurance Scheme (“**EDIS**”), which is however still due to be established. A proposal for a regulation establishing the EDIS was published by the European Commission on November 24, 2015 and is currently under discussion. National deposit guarantee schemes are already regulated under the Deposit Guarantee Schemes Directive No. 2014/49/EU (the “**New DGS Directive**”), superseding Directive No. 1994/19/EC (the “**Former DGS Directive**”). The SSM, SRM and New DGS Directive are briefly described below.

European regulatory and supervisory authorities

Under the European framework the following authorities may exercise certain regulatory powers in the field of banking supervision:

(a) the ECB, which is the entity ultimately responsible for the supervision of all credit institutions established in Member States of the Eurozone (or other Member States that enter into close cooperation agreements with the SSM); and

(b) the EBA, whose functions and powers are governed by Regulation (EU) No. 1093/2010 of the European Parliament and of the Council of November 24, 2010 (as amended).

In particular, the EBA is in charge, *inter alia*, of developing the Single Rulebook by drafting and proposing regulatory and implementing technical standards to be endorsed by the EU Commission by means of regulations. In addition, the EBA may also conduct certain tests involving the European banking and financial system.

The EBA forms part of the European System of Financial Supervision (“**ESFS**”) and, in particular, is one of the European Supervisory Authorities (“**ESA**”) in charge of micro-prudential supervision of financial institutions, along with the European Securities and Markets Authority (“**ESMA**”) and the European Insurance and Occupational Pensions Authority (“**EIOPA**”). In addition, within the context of the ESFS the European Systemic Risk Board (“**ESRB**”), which is established under the aegis of the ECB, is in charge of the macro-prudential oversight of the financial system as a whole.

Banking activity authorization

Pursuant to Article 10 of the Consolidated Banking Act, the performance of deposit taking from the public and lending constitute banking activity which is subject to licensing requirements. According to the rules governing the functioning of the SSM, the ECB has the power to grant the authorization necessary for the performance of banking activities within the SSM, based on a proposal made by national competent authorities (i.e. the Bank of Italy as far as Italian banks are concerned) and under a joint procedure. The Bank of Italy (pursuant to Article 13 of the Consolidated Banking Act) holds a register of banks authorized to conduct banking activities in Italy. Banks can be established as joint stock companies (*società per azioni*) and limited liability co-operatives (*banche popolari and banche di credito cooperativo*).

Banking Union-Single Supervisory Mechanism

On October 15, 2013, the Council of the European Union adopted the Single Supervisory Mechanism Regulation No. 1024/2013 (the “**SSM Regulation**”) establishing a Single Supervisory Mechanism for Eurozone banks and other credit institutions, which, beginning on November 4, 2014, gave the ECB, in conjunction with the national regulatory authorities of the Eurozone states, direct supervisory responsibility over “significant banks” in the Eurozone. Significant banks include, *inter alia*, any Eurozone bank that has: (i) assets greater than €30 billion; (ii) assets constituting at least 20% of its home country’s gross domestic product; or (iii) requested or received direct public financial assistance from the European Financial Stability Facility or the European Stability Mechanism. The ECB also has the right to impose monetary sanctions and set binding regulatory standards. We are considered to be a "less significant bank" subject only to indirect ECB's oversight under the SSM Regulation as per the list published by the ECB on September 4, 2014 and subsequently updated. The SSM Regulation is complemented by the "**SSM Framework Regulation**" (Regulation ECB/2014/17 establishing the framework for cooperation within the Single Supervisory Mechanism between the ECB and national competent authorities and with national designated authorities) adopted by the ECB on April 16, 2014. The ECB also adopted ancillary legislation on the bodies that operate in the framework of the Single Supervisory Mechanism (e.g. the Supervisory Board, the Governing Council, the Mediation Panel and the Administrative Board of Review) and a guide to banking supervision describing the modalities of the new supervision under the SSM through dedicated joint supervisory teams (one for each supervised entity) acting under tailored supervisory examination processes and defined cycles of supervision.

With respect to significant institutions, national regulatory authorities continue to remain responsible for supervisory matters not conferred on the ECB, such as investment services, consumer protection, money laundering, payment services, and branches of third country banks. The ECB, on the other hand, is exclusively responsible for prudential supervision, which includes, *inter alia*, the power to: (i) authorize and withdraw authorization from all credit institutions in the Eurozone; (ii) assess acquisition and disposal of holdings in banks; (iii) ensure compliance with prudential requirements laid down in the CRD IV Package; (iv) set, where necessary, higher prudential requirements for certain banks to protect financial stability under the conditions provided by EU law; (v) impose robust corporate governance practices and internal capital adequacy assessment controls; and (vi) intervene at the early stages when risks to the viability of a bank exist, in coordination with the relevant resolution authorities.

Banking Union-Bank Recovery and Resolution Directive and Single Resolution Mechanism under the SRM Regulation

On May 15, 2014 and on July 15, 2014 the BRRD and the SRM Regulation were approved, respectively. The BRRD introduces a harmonized framework for the recovery and resolution of credit institutions and certain investment firms within the EU. The BRRD, *inter alia*, (i) provides the Relevant Authorities ("resolution authorities" and the "competent authorities" as defined therein) with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimize taxpayers' exposure to losses and (ii) establishes mutualized national financing arrangements to provide financial support in resolution scenarios. The SRM Regulation applies analogous tools and powers within the area in which the SSM Regulation applies and, *inter alia*, (i) confers on a Single Resolution Board (that is to be considered a resolution authority for certain entities and groups) the tools and powers of national resolution authorities under the BRRD, subject in any event to the provisions included in the SRM Regulation, and (ii) creates a Single Resolution Fund to provide financial support in resolution scenarios.

The powers conferred on Relevant Authorities in the BRRD and the SRM Regulation include write down/ conversion powers to ensure that capital instruments including, but not limited to, regulatory capital instruments, fully absorb losses at the point at which the issuing institution is failing or likely to fail, as well as a bail-in tool comprising a more general power for the Relevant Authorities to write-down or convert into equity, in certain circumstances and subject to certain exclusions, regulatory capital instruments subordinated debt, certain types of senior debt and certain other liabilities. As for capital instruments included in regulatory capital, the BRRD provides that resolution authorities are required to write down such capital instruments in full on a permanent basis, or convert them in full into Common Equity Tier 1 ("**CET1**") instruments, before any resolution action is taken. The power to write down or convert these types of capital instruments (the "**Regulatory Capital Write-Down Power**") may also be exercised independently of resolution actions *provided that* certain conditions are met.

The bail-in tool is a resolution action and as such is subject to the resolution criteria set out in the BRRD (which include, but are not limited to, a determination that the credit institution is failing or is likely to fail). Subject to certain preferred liabilities specified in the BRRD (including secured liabilities, bank deposits guaranteed under an EU Member State's deposit guarantee scheme, liabilities arising by virtue of the holding of client money, liabilities to other non-group banks or investment firms that have an original maturity date of less than seven days and certain other exemptions) it is intended that all liabilities of an institution (including senior debt) ("**Eligible Liabilities**") should potentially be subject to the general bail-in tool. The powers under the BRRD include the power to write down or convert Eligible Liabilities into CET1 instruments, as well as to cancel any debt instrument evidencing an Eligible Liability. The Regulatory Capital Write-Down Power and the general bail-in tool described above are each referred to as a "**Resolution Power**" and, collectively, are referred to herein as the "**Resolution Powers**".

The BRRD provides that a write-down/conversion resulting from the use of any of the Resolution Powers would, in summary, follow the ordinary allocation of losses and ranking in an insolvency of the relevant institution, meaning, *inter alia*, that the authorities shall exercise the write down powers in a way that results in CET1 instruments being written down first in proportion to the relevant losses and, thereafter, the principal amount of other capital instruments being written down on a permanent basis (with subordinated debt being written down/ converted before senior unsecured debt). CET1 instruments may be issued to holders of other capital instruments that are written down.

In addition, the BRRD and the SRM Regulation provide Relevant Authorities with broad powers to implement other resolution measures with respect to distressed banks which satisfy the conditions for resolution, which may include (without limitation) the sale of bank's business, the separation of assets, the replacement or substitution of the bank as obligor in respect of debt instruments, modification to the terms of debt instruments (including altering the maturity and/or the amount of interest payable and/or imposing a temporary suspension of payments) and discounting the listing and admission to trading of financial instruments.

The BRRD has been implemented in Italy through the adoption of two Legislative Decrees by the Italian government (together, the "**BRRD Decrees**"). One implements the provisions of BRRD relating to resolution actions while the other deals principally with recovery plans, early intervention and changes to the creditor hierarchy. The BRRD Decrees entered into force on November 16, 2015, save that: (i) the bail-in tool applied from January 1, 2016; and (ii) a "depositor preference" granted for deposits other than those protected by the deposit guarantee scheme and those of individuals and SME's will apply from January 1, 2019.

If a bank is unstable or at risk of becoming unstable, the Bank of Italy could implement various measures to remedy the situation, as an alternative to compulsory liquidation, such as the bail-in, namely reduction powers with the possibility of cancelling the nominal value of the shares and the write-down of liabilities through their conversion into shares, to absorb losses and recapitalize the bank in distress or a new entity which continues the same functions.

In greater detail, Legislative Decree No. 180/2015 (Article 20, paragraph 1) requires that when the relevant conditions are satisfied, the Bank of Italy may impose: (i) the write-down or conversion of shares, other equity investments and capital instruments (Common Equity Tier 1 items, Additional Tier 1 instruments, Tier 2 instruments) issued by the issuer; or, alternatively, (ii) when the measure indicated in point (i) does not allow the distress situation to be remedied, the adoption of resolution measures for the intermediary or compulsory liquidation.

Specifically, the shares, other equity investments and capital instruments issued by a distressed bank could be written down or converted (Article 27 of Legislative Decree No. 180/2015): (i) independently of the opening of the resolution or compulsory liquidation proceedings; (ii) in conjunction with a resolution action, when the resolution program includes measures which involve the reduction in value for shareholders and creditors of their rights or conversion into capital; in this case, the reduction or conversion is imposed immediately before or at the same time as the application of these measures. The resolution measures (Article 39, paragraph 1 of Legislative Decree No. 180/2015) include the so-called bail in, which consists of reducing the rights of shareholders and creditors or the conversion of the rights of the latter into capital.

In applying the bail-in instrument, reductions must be carried out by the authorities in the following order of priority, until the losses are covered: (i) Common Equity Tier 1 instruments; (ii) Additional Tier 1 Instruments; (iii) Tier 2 Instruments including subordinated bonds; (iv) subordinated debts other than Additional Tier 1 instruments and Tier 2 instruments; and (v) the remaining liabilities, including unsubordinated (senior) bonds. Once losses are absorbed, or in the absence of losses, conversion into ordinary shares will proceed, in the following order: (i) Additional Tier 1 instruments; (ii) Tier 2 Instruments including subordinated bonds; (iii) subordinated debts other than Additional Tier 1 instruments and Tier 2 instruments; and (iv) the remaining liabilities, including unsubordinated (senior) bonds.

The bail in instrument described above can be applied both individually and in conjunction with the other resolution measures set out in the Italian provisions implementing the BRRD (Article 39, paragraph 1, of Legislative Decree No. 180/2015) namely: (i) the transfer of assets and legal relationships to a third-party; (ii) the transfer of assets and legal relationships to a bridge institution; and (iii) the transfer of assets and legal relationships to a special purpose vehicle for the management of activities.

Therefore, by applying a bail-in, holders of regulatory capital instruments or creditors of the bank will find themselves exposed to the risk of having their investments written down, written off, or even converted into equity instruments, even in the absence of a formal declaration of insolvency of the issuer. The provisions regarding bail-in can be applied to existing financial instruments.

The BRRD and the SRM Regulation represent the implementation in the European Economic Area of the non-viability requirements set out in the press release dated January 13, 2011 issued by the Basel Committee entitled "Minimum requirements to ensure loss absorbency at the point of non-viability", which forms a part of the broader Basel III requirements, implemented in the European Union through the CRD IV Package.

According to the BRRD each bank must prepare a recovery plan and submit it to the Relevant Authority, which must in turn prepare a resolution plan for each bank.

The entire regulatory framework involving business crisis resolution is aimed at enabling crisis management through the use of private sector resources, reducing the negative effects on the economic system and avoiding the cost of serious bail-outs for tax payers. Public financial support for a bank in crisis can only be granted after the resolution instruments described above have been applied and if the prerequisites required at European level by the State aid framework are satisfied.

Banking Union-Deposit insurance

On March 9, 2016 the provisions of the Legislative Decree No. 30/2016 implementing the New DGS Directive (the "**New DGSD Decree**") entered into force, save for certain exceptions.

The New DGSD Decree introduced a number of amendments to the provisions of the Consolidated Banking Act related to the functioning of deposit guarantee schemes. Pursuant to Article 96 of the Consolidated Banking Act, all Italian banks must be members of a guarantee fund, which preserves a deposit in case of insolvency of any authorized Italian bank. In particular, we are a member of the Interbank Deposit Guarantee Fund (*Fondo Interbancario di Tutela dei Depositi*) (the "**Guarantee Fund**"), which covers losses up to €100,000 per depositor held in the form of eligible deposits (as defined by the provisions set forth in the New DGSD Decree, which also indicates the categories of deposits and other funds or liabilities that are excluded from such coverage). These new provisions regulate, *inter alia*, the contributions to be made to the Guarantee Fund by their members and the minimum level of the available financial means of the Guarantee Fund-the target level to be reached by 2024 is set at 0.8% of the amount of the covered deposits of its members. See also "*Risk Factors—Risk Related to Our Business—We are required to make yearly contributions to the Single Resolution Fund and the Interbank Deposit Guarantee Fund, and in exceptional circumstances we may be required to make additional contributions*".

Acquisition of relevant shareholdings in banks

Directive No. 2007/44/EC and the Consolidated Banking Act, as implemented by the relevant CICR resolution require that persons, whether acting alone or in concert, obtain prior authorization before acquiring equity interests in banks or bank holding companies which would result in such person owning 10% or more of the banks' share capital or its voting rights or otherwise controlling or exercising significant influence over the bank. Prior authorization is also required to obtain an ownership stake of (or higher than) 20%, 30% or 50% of the banks' share capital or its voting rights or any other stake which would result in a change of control of the bank. Any such authorization is granted by the ECB in cooperation with the Bank of Italy.

The ECB's authorization is also required for transactions involving an irrevocable commitment by an individual or a group to purchase a material equity interest in a bank or in the parent company of a banking group (such as auctions, public tender offers, or transactions that would result in an obligation to conduct a public tender offer). In addition, parties must disclose to the Bank of Italy and the ECB any agreement to jointly exercise voting rights in a bank or in the parent company of such bank.

Authorization requirements in relation to certain transactions

Pursuant to the provisions set forth in the Circular No. 285/2013 and related implementing regulations the perfection of certain transactions by Italian banks is subject to the prior authorization or non-objection by the competent Supervisory Authority. These transactions include, in particular, the approval of amendments to the by-laws of the bank, the purchase of a business (or parts thereof) as a going concern (if certain conditions are met), mergers and de-mergers involving Italian banks.

Capital adequacy requirements

In the wake of the global financial crisis that began in 2008, the Basel Committee on Banking Supervision approved, in the fourth quarter of 2010 and in January 2011, revised global regulatory standards under the Basel III framework.

The Basel III rules impose certain requirements on bank capital adequacy and liquidity, higher and better-quality capital, better risk coverage, measures to promote the build-up of capital that can be drawn down in periods of stress and the introduction of a leverage ratio as a backstop to the risk-based requirement as well as two global liquidity standards. They adopt a gradual approach, with the requirements to be implemented over time, with full enforcement in 2019.

The Basel III rules have been implemented in the EU through the CRD IV Package adopted on June 26, 2013. Full implementation began on January 1, 2014, with certain parts of the CRD IV Package being phased in over a period of time (the requirements will be largely fully effective by 2019 and some minor transitional provisions provide for their phase-in up to 2024). The CRD IV has been implemented in Italy through the Circular No. 285-2013 of the Bank of Italy and the relevant Legislative Decree, which amended a number of provisions included in the Consolidated Banking Act and the Consolidated Financial Act. Some of the rules introduced by the CRD IV are still due to be fully implemented (for instance, as regards the requirements applying to relevant shareholders or members of corporate bodies) while others (e.g. in relation to the sanctioning regime, which has been significantly changed) should only apply *ratione temporis* to breaches occurred after the entry into force of such new provisions.

Based on the framework mentioned above, Italian banks are required to comply with (i) a minimum CET1 Capital ratio of 4.5%, (ii) Tier 1 Capital Ratio of 6.0% and (iii) Total Capital Ratio of 8.0%. These minimum ratios are complemented by the following capital buffers, to be met with CET1 capital:

(a) Capital conservation buffer: was set at 2.5% of RWA on a consolidated basis until December 31 2016. On October 4, 2016, the Bank of Italy amended the Circular No. 285/2013 in order to set the capital conservation buffer applying to Italian banks (on a solo and consolidated basis) at (i) 1.25% from January 1, 2017 until December 31, 2017, (ii) 1.875% from January 1, 2018 until December 31, 2018, and (iii) 2.5% starting from January 1, 2019;

(b) Counter-cyclical capital buffer: is set by the Relevant Authority between 0%-2.5% (but may be set at a level which is higher than 2.5% where the competent authority considers that this is justified by the economic conditions of the Member State), with gradual introduction from January 1, 2016, and applying temporarily in the periods when the relevant national authorities considers the credit growth to be excessive. In particular, the relevant ratio for the calculation of such capital buffer has been set at0% by the Bank of Italy for the first and second quarter of 2017;

(c) G-SII and O-SII buffer: a "**systemic buffer**" is provided for banks qualifying as "**global systemically important institutions**" (G-SII buffer) or "other systemically important institutions" (O-SII buffer) in order to counteract non-cyclical or systemic risks to the financial system or the real economy.

Failure to comply with such combined buffer requirements triggers restrictions on distributions and the need for the bank to adopt a capital conservation plan on necessary remedial actions.

The application of the rules on minimum regulatory capital and capital buffers mentioned above is without prejudice to the possibility for the Relevant Authorities to impose compliance with additional capital requirements to single institutions or groups.

Under the CRD IV Package, the recognition of regulatory capital instruments that will no longer be included in Tier 1 capital or Tier 2 capital will be gradually phased out over an eight-year period, due to begin as of January 1, 2014. From 2014, the grandfathered amount (as determined on the basis of a one-time calculation) of those regulatory capital instruments that may be recognized is reduced in steps of 10% per annum from 80% (in 2014) to 10% (in 2021), with the grandfathering to end at the beginning of 2022.

Under CRD IV, banks are also required to meet two liquidity standards: a liquidity coverage ratio ("**LCR**") and a net stable funding ratio ("**NSFR**"). The LCR requires banks to hold an amount of unencumbered, high quality liquid assets that can be used to offset the net cash outflows the bank would encounter under an acute short-term stress scenario. The NSFR measures the amount of longer-term, stable sources of funding employed by a bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on liquidity arising from off-balance sheet commitments and obligations.

The LCR was introduced on January 1, 2015; the minimum requirement began at 60%, rising to 70% as of January 1, 2016, and again to 80% as of January 1 2017, before reaching 100% on January 1, 2018 (as of the date of this Offering Circular, the LCR requirement is 80%). The Group's LCR increased between December 31, 2014 and December 31, 2015, going from 351% to 391%, before increasing to 502% as of December 31, 2016, primarily due to the effect of the Magellan acquisition. The decrease registered is due to the regular management of defaults and repayments as part of the Group's ongoing wholesale funding that operates within the risk appetite limits established by the Company.

The NSFR will remain subject to an observation period ahead of its planned implementation on January 1, 2018, when it will come into effect at 100%. As of December 31, 2016, the Group's NSFR was 115.3%. Individually, both of the risk appetite indicators are above the required amount and the target values shown are always above the minimum amounts set by the Company (and consequently higher than the minimums required by Circular No. 285/2013 from the Bank of Italy).

Corporate governance, administrative and accounting organization and internal control

Circular No. 285/2013 contains rules designed to achieve more efficient organization of the corporate governance structure of Italian banks. The available governance models are: (i) the traditional model (composed of a board of directors and a board of statutory auditors), (ii) dualistic (composed of a management board and a supervisory board) or (iii) monistic (composed of a board of directors and a control committee). Basic rules of principle were adopted to distinguish among the functions of the various corporate bodies for strategic supervision, management and control to achieve the appropriate balance of powers and responsibilities. In addition, a number of provisions have been introduced in compliance with the CRD IV in order to regulate the compensation and incentives provided to members of banks' management and governance bodies and other risk takers or employees of the banks in line with the regulatory framework applicable at EU level.

In accordance with the proportionality principle, the corporate governance requirements applying under the Circular No. 285/2013 differ to some extent depending on whether a bank qualifies as (i) minor bank, (ii) intermediate bank, or (iii) large bank in terms of size or operational complexity. The notion under (iii) encompasses, inter alia, significant credit institutions subject to the direct supervision of the ECB within the context of the Single Supervisory Mechanism as well as banks whose shares are publicly traded on regulated markets.

Moreover, for banks publicly traded on regulated markets the Consolidated Financial Act provides specific requirements for the composition of management and governance bodies in order to protect the interests of investors and minority shareholders. In addition, the Consolidated Financial Act sets forth disclosure rules that govern the financial information that listed banks must publicly disclose to the market, the annual corporate governance report in which listed banks must describe their corporate governance model and ownership structures and the remuneration report in which listed banks must describe their remuneration policies and the remunerations paid to directors and managers.

Late Payment in Commercial Transactions

In 2000 the European Commission issued a first directive (Directive No. 2000/35/EU or "**Directive 2000/35**") to regulate late payments in commercial transactions between undertakings (including professions) or between undertakings and public authorities which lead to the delivery of goods or the provision of services for remuneration. The primary objective of the Directive was to standardize the terms of payment of trade receivables and the late payment interest in the Member States, ensuring that the deadlines are met even in situations of potential contractual imbalance, particularly in the relationship between companies and public administrations. In particular, this directive set forth in all Member States (i) a single term of payment of 30 days (which could be amended by the parties with an agreement in writing and to the extent that is not grossly unfair to the creditor) and (ii) a minimum interest rate equal to the sum of the interest rate applied by the European Central Bank to its most recent main refinancing operation carried out before the first calendar day of the half-year in question, plus at least seven percentage points (the "**bps**").

The provisions of the Directive 2000/35 EC apply to commercial transactions entered into prior to January 1, 2013. The Directive 2000/35 has been implemented in Italy in 2002.

With the EU Directive No. 2011/7/EU and the related Legislative Decree of implementation, the discipline of the late payments has been integrated through: (i) a reshaping of the period within which the debtor must make payment, providing for debtors who are bodies of Italian national healthcare system have a longer term of payment equal to 60 days, (ii) additional limitations to the possibility to derogate, in a pejorative sense to the lender, and (iii) the increase of the minimum level of interest from 700 bps to 800 bps to be added to interest rate applied by the European Central Bank to its most recent main refinancing operation. In particular, following further amendments to the relevant law, the reference interest rate should be increased with the percentage determined from time to time by the Ministry of Economy and Finance which, for the first half of 2015, was equal to 0.05%. Therefore the interest rate then applicable to commercial transactions in Italy was equal to 8.05%. The provisions of the abovementioned Legislative Decree apply with reference to payments made as remuneration for commercial transactions as of January 1, 2013.

Factoring

Factoring is governed by articles 1260 to 1267 of the Civil Code regarding the transfer of credit and by Law No. 52 of February 21, 1991.

Certification of Receivables

In order to promote the sale of receivables claimed by undertakings *vis-à-vis* the public administration, the latter must certify, following an application by the creditor, any receivable relating to amounts due to supplies, contracts and professional services (*i.e.* trade receivables). The certification process is managed through the electronic platform for certification of receivables created by the Ministry of Economy and Finance. The application for the certification of receivables may be filed by anyone (companies, sole proprietorships or individuals) who claims a trade receivable which is certain, due, payable and not time barred *vis-à-vis* the public administration. Notwithstanding the non time-barring requirement in relation to the trade receivable, it is possible to submit motions for the certification at any time

Electronic Invoicing

As of June 6, 2014, ministries, tax agencies and national security agencies can no longer accept invoices issued or transmitted in paper form. As of March 31, 2015, the same rules shall apply to the remaining national institutions and local governments, including the SSN. Moreover, starting from the three months following such dates, the public administrations can no longer make payments, even in part, to the creditor unless the latter has sent the invoice in electronic form. The obligation of electronic invoicing *vis-à-vis* the public administration was introduced by the annual 2008 Budget Law (the "**2008 Budget Law**"). The 2008 Budget Law provided that the transmission of electronic invoices to government departments must be made through the Interchange System ("**SDI**"). The methods of operation of the SDI were defined pursuant to ministerial decree No. 55 of 2013.

The legislator has introduced electronic invoicing in relations between business and public administrations with the 2008 Budget Law as amended instructing the Ministry of Economy and Finance to set up the SDI that is administered by the tax authorities and managed from a technical standpoint by Sogei S.p.A. The deadline, previously scheduled for June 6, 2016, for the involvement of every public administrations in the system has been brought forward.

Legislative Decree No. 127/2015 provides that (i) starting on July 1, 2016 tax authorities make available to taxpayers a free service for the origination, transmission and storing of the electronic invoices; (ii) and from January 1, 2017 the Ministry of Economy and Finance make available to persons who are subject to VAT the SDI already available for the invoicing to public administrations.

In addition, Decree Law No. 193 of 2015 provides that a from January 1, 2017 taxpayer may opt from the electronic transmission, also through the SDI, of all the data of the invoices (both active and passive) relating transaction which are relevant for the purposes of the VAT system carried out since January 1, 2017.

Ministry Decree of August 4, 2016 establishes the modalities in order to benefit from the reduction of the limitation period and, with Directorial Decree No. 182070 of 2016, the tax authority indicated: (i) the information to be transmitted; (ii) information format; (iii) technical rules and solutions; (iv) terms for the safe electronic transmission of the data of the invoices issued and received, in order to allow VAT taxpayers to exercise the relative option and to make available the information received pursuant to Article 1 (1) and (2) of Legislative Decree No. 127/2015. In this regard, the option may be exercised through the electronic systems of the authority, its effects last for the calendar year of beginning and following four years (with some exceptions for the individuals that begin the activity during the year and intend to exercise the option as from the first day of activity) and it shall not be withdrawn prior to 5 years and shall extend for each successive five-year period.

In view to allow taxpayers and intermediaries to duly and fully evaluate the opportunity to exercise the aforementioned options, Tax Authority Decision of December 1, 2016 set out a longer time frame in this respect.

In addition, taxpayers that exercise the option will be entitled to modify the quarterly information flows within 15 days of the expiration of the term provided for the transmission of the date relating to each quarter.

In any event, the foregoing system relates to electronic invoicing in private relationships; accordingly, it does not involve the Company.

Within March 31, 2017 the Company will evaluate the opportunity to benefit from the incentives deriving from the adoption to the aforementioned Decree, thus offering the new service to customers.

As of the date of this Offering Circular the Company is not part to this system; accordingly, there are neither obligations nor risks in this regard.

Securitization of Receivables

In the course of our business, we carry out securitizations of receivables purchased. These transactions are governed by Law No. 130 of April 30, 1999 as subsequently amended and integrated (the "**Securitization Law**"). The Securitization Law applies to securitization of receivables effected by assignment of receivables or the issuance of debt securities or commercial papers by special purpose vehicles, specifically established to effect the securitization transaction. The receivables are segregated assets of the special purpose vehicle and therefore cannot be the object of an enforcement actions conducted by creditors other than the holders of securities issued for the purpose of financing the purchase of those receivables.

Anti-Money Laundering and Anti-Terrorism Regulation

Banks are subject to anti-money laundering rules and regulations, set forth mainly the by AML Decree. Under current anti-money laundering rules and regulations, banks are required to:

(i) identify and properly verify their customers (using more rigorous procedures in circumstances with a heightened risk of money laundering or terrorism financing);

(ii) set up a consolidated computer archive (*Archivio Unico Informatico* or "**AUI**");

(iii) record and preserve identifying data and other information related to relationships and transactions in the AUI;

(iv) transmit a statistical flow to UIF (*Unità di Informazione Finanziaria* or "**UIF**") and manage certain related issues;

(v) report suspicious transactions; and

(vi) establish measures of internal control and ensure the adequate training of employees to prevent money laundering transactions.

The AML Decree is complemented by various Rulings of the Bank of Italy pursuant to the related provision of such decree.

Administrative Liability of Entities

We are subject to the obligations arising from the Legislative Decree No. 231/2001 (the "**Decree 231**", governing the administrative liability of companies.

Decree 231 requires Italian corporate entities to implement compliance procedures in order to avoid administrative liability under Decree 231 for crimes committed in their interest or to their advantage by individuals who have a functional relationship with such corporate entities (such as employees, directors and representatives). Pursuant to Decree 231, crimes from which corporate entity's administrative liability may arise include, but are not limited to, those committed while dealing with public administrations (e.g. corruption, bribery, misappropriation of public contributions and fraud to the detriment of the state), corporate crimes, environmental crimes and crimes of manslaughter or serious injury deriving from violation of relevant provisions presiding the health and safety at the workplace.

Organizational model codes ("**OMCs**") allow corporate entities that have implemented them in compliance with Decree 231 to avoid administrative liability, provided that an independent officer or body, such as a supervisory body (*Organismo di Vigilanza*), is appointed with the task to supervise the OMC implementation. However, the adoption of an OMC model by a company does not in itself exclude any form of liability under Decree 231, and failure to update these OMC models increases the risk that administrative liability under Decree 231 may arise.

If a crime falling within the scope of Decree 231 is committed, the court will examine the controls implemented by the relevant company and, should the controls be considered inadequate, implemented ineffectively or insufficiently monitored, eventually imposing economic sanctions (e.g. fines and confiscation of profits) and legal sanctions, including but not limited to: (i) prohibition from continuing the business affected by the criminal offenses; (ii) suspension and revocation of current or future authorizations, licenses or concessions; (iii) prohibition from contracting with public authorities; (iv) exclusion from subsidies, loans contributions or, where applicable, the revocation of those already granted; and (v) prohibition on publicizing goods or services. The duration of these prohibitions ranges from a minimum of three months to a maximum of two years (in very serious cases, however, some of these prohibitions can become permanent).

Privacy

As part of our activities and, in particular, the processing of personal data of individuals and entities we come into contact with, we are subject to the provisions of Legislative Decree No. 196/2003, as subsequently amended and supplemented.

Health and Safety at Work

We are subject to the provisions of Legislative Decree No. 81 of April 9, 2008, which sets forth laws and regulations on health and safety at work place.

Default of Italian Public Entities

In accordance with the rules set forth by European System of Accounts-Sec 2010 Regulation and with the Guidelines on public deficit and debt, the central public administration (*i.e.* the institutional unit which comprises the public administration,) contributes with its accounts to the construction of the consolidated income statement of the public administration.

Default by the central public administration is only conceivable if the State itself is unable to honor its debts.

Pursuant to Article 119 of the Italian Constitution as amended, the regions of Italy (the "**Italian Regions**") are required to comply with the budgetary balance and contribute with their accounts to the enforcement of the economic and financial constraints deriving from the European Union. In this regard, pursuant to Article 120 of the Italian Constitution and its implementing provisions, the Prime Minister is allowed to grant to the relevant institution a reasonable time to take the due or necessary measures. After the expiry of such period, the Council of Ministers has the right to directly adopt the necessary measures, including the appointment of a special commissioner. In the light of the above, the financial autonomy of the Italian Regions encounters limits that prevent the possibility of a default of such regional administration, given that the respect of the budget limits is ensured by the power of intervention granted to the state. Furthermore, "serious" violations of the budgetary limits may lead to the application of Article 126 of the Italian Constitution, providing that for the dissolution of the regional councils and the impeachment of the Chairman of the Region responsible for acts deemed contrary to the Constitution or for serious violations of the law by means of a decree of the President of the Republic of Italy. The evaluation on the "seriousness" of such breaches, pursuant to Article 126 of the Italian Constitution, generally involves a political and discretionary assessment.

ASLs and AOs are entities defined as "instrumental" to the Italian Regions. These institutions, in fact, are created by the respective regions to provide services of public interest (pursuant to Article 32 of the Italian Constitution for what concerns the right to healthcare) and such regions are responsible for their existence and proper functioning. Since (i) under Italian law ASLs and AOs are considered public entities (with their own legal status) "controlled" by the Italian Regions, and (ii) government agencies cannot be the subject, in case of insolvency, of either winding-up procedures or creditor arrangements (the so called "*concordato preventivo*"), Italian Regions (which are entitled to determine the budget of ASLs and AOs) are obliged, on a territorial basis, to ensure the financial stability of ASLs and AOs covering any of their deficit. In particular, the Plenary Section of the Italian Supreme Court established the principle that Italian Regions are required to respond, in case of default of ASLs and AOs, for the liabilities undertaken by the healthcare institutions, even in the case of obligations undertake by further dissolved entities (such as the *Unità Sanitaria Locale* or "USL").

The Italian Regions under restructuring plans manage the additional funds received from the State in a centralized manner, as they: (i) pay directly the outstanding unpaid invoices of ASLs and/or AOs, or (ii) provide funds to ASLs and/or AOs in order to ensure the payment of the outstanding unpaid invoices.

Unlike the Central Government and the Italian Regions, in compliance with the current regulatory framework, local authorities (municipalities, provinces and mountain communities) are subject to the risk of default. However, this is mitigated by the Italian State by making available to local authorities having declared insolvency the recourse of the procedure of pre-insolvency, and not able to pay the debt with their own means, the "revolving fund to ensure financial stability of local authorities" which, however, does not guarantee all the liabilities of these entities.

In particular, local authorities in financial distress are governed by the Consolidated Local Authorities Act (the "**Consolidated Local Authorities Act**") pursuant to which such entities are excluded from the list of private entities to which the insolvency provisions apply.

According to article 242 of the Consolidated Local Authorities Act, the entities that present a serious and indisputable imbalance condition-detectable on the basis of a table created for that purpose containing objective parameters-have to be considered structurally loss-making.

Article 244 of the Consolidated Local Authorities Act, states that there is a situation of financial distress if (i) the entity cannot guarantee the performance of fundamental functions and services, or (ii) third parties own liquid and payable debts against the local authorities which cannot be paid effectively through the ordinary procedure. If Article 244 of the Consolidated Local Authorities Act applies, a specific procedure enters into force requiring the detection and payment of debts and the financial recovery of the authority. The procedure starts with a resolution adopted by the Council of the local authority declaring the situation of financial distress and involves the appointment of an Extraordinary Liquidation Organ ("**ELO**") by the Ministry of Interior. The whole recovery process is governed by ELO, which settle the debts with the means permitted by the law and, in particular determines the amounts to be paid and then executes the payments.

The situation of financial distress implies precautionary measures and restrictive consequences pursuant to Article 248 of the Consolidated Local Authorities Act, including the inability to undertake or pursue enforcement actions against the involved local authority, for the debts falling within the jurisdiction of ELO, until the approval of the statement of liquidation (dealing therefore with debts related to management acts or facts that occurred within December 31, of the year preceding the year of the assumption of the re-adjusted financial statements, even though established subsequently, with jurisdictional measure).

In the event of financial distress and submission to the relevant procedure, the creditors of the local authorities are required to file a proof of claim, together with the appropriate documentation demonstrating the existence of the debt, the related amount and possible preemptive rights, in order to be included in the plan for creditor discovery and, subsequently, not to be excluded from the distribution of assets.

The filing of a proof of claim does not constitute a form of acquiescence by the creditor to what will be decided in the event of the liquidation of the bodies of the distressed entity, and does not affect, therefore, the possibility for the creditors to undertake at a later point (as the debtor returns to be solvent) an enforcement actions, in order to recover part of the credit which was non collected in the liquidation procedure (such as interest and currency revaluation balances).

The liquidation and payment of the debts of the insolvency assets can be made in compliance with two alternative procedures, an ordinary one (which should involve, in principle, the full payment of the claimed receivables) and a simplified one (by means of which it is possible to propose payment to creditors to an extent that varies from 40% to 60% of the credit amount), covered by Articles 256 and 258 of the Consolidated Local Authorities Act, respectively. With regard to both procedures, there is a risk that the credits claimed against the local authority may not be fully satisfied. However, if through the procedure, the creditors have obtained a jurisdictional measure ordering the payment of what they are owed (e.g. order for payment), they will be able to carry out, once the local authority returns to be solvent, an appropriate executive action in order to recover the total amount due.

As an alternative to the financial distress, Articles 243—*bis*, *ter* and *quarter* of the Consolidated Local Authorities Act cover the multiannual financial compensation procedure to which local authorities, with the resolution of the Board, can access. The possibility to access the compensation procedure is an important tool for local authorities in a situation immediately preceding (and close enough) financial distress. In the abovementioned procedure, the identification and the management of consolidation measures are assigned to ordinary bodies of the local authority. The Board shall approve the multiannual financial compensation plan for a maximum of 10 (ten) years and shall transmit it to the Court of Auditors for their acceptance or rejection. In order to implement the plan, the local authority shall be provided with the ascertainment of all the off-balance sheet debts. The local authority can finance its debts through a rescheduling plan for a maximum of 10 (ten) years (*i.e.* the same term requested for the multiannual financial compensation plan). The multiannual compensation procedure (together with the ten-year rescheduling plan) entails the full payment of account receivables by the local authority. The creditor can decline the rescheduling plan and he can bring a claim to the local authority in order to recover payments due. The multiannual compensation procedure suspends executive proceedings from being pursued from the date of the resolution adopted for the implementation of the hereby mentioned procedure to the date of the approval (or rejection) of the compensation plan by the Court of Auditors.

With regard to economic public entities, they are subject to the compulsory administrative liquidation meant to liquidate their assets in case of insolvency; such a proceeding shall satisfy the creditors on the basis of the *par condicio creditorum* principle. The insolvency procedure is aimed at the extinction of the entity, and is entrusted to a liquidator, who shall carry out all the activities intended for the winding-up. The above procedure includes: the assessment of liabilities, the liquidation and the distribution of assets. The main risk consists in unsatisfied creditors, in the event that the revenues cannot fully discharge the debts of the entity. In this case, no claim can be submitted to the entity, because of the scope of the compulsory administrative liquidation.

There are relevant provisions applicable in case of:

(a) Distress of Universities, qualified as non-economic public entities; in case the University is not able to perform its fundamental functions or reimburse its current liabilities, a procedure, similar to the one required for local authorities, is activated;

(b) Suppression and liquidation of public entities in deficit, which are not subject to the above-mentioned procedures: in that event, a similar process is activated.

The 2016 Italian Stability Law has introduced several new titles in terms of default of public entities. In particular, with reference to the pre-crisis situation:

(a) All the local entities that during 2013 and 2014 presented multiannual financial compensation procedures according to Article 243-bis of the Consolidated Local Authorities Act, will benefit of an extension of what is currently envisaged only for the experimenting municipalities in terms of longest time frames (thirty years) of the deficit recovery deriving from the extraordinary review of residuals. Such entities may reformulate the precedent plan consistently with the period of thirty years, within six months from the entry into force of the 2016 Italian Stability Law. In addition, the repayment of the liquidity advances issued by such entities is made within a maximum period of thirty years;

(b) The entities that have obtained the approval of the multiannual financial compensation plan can use the resources deriving from trading operations of loans, but also from the repurchase of issued debt securities, without restrictions on their intended use for the duration of the plan.

As regards hospital entities in a deficit situation, it is established that submission to the deficit recovery shall be made for all those entities that (including ASL, starting from 2017) present deviations between revenues and costs higher than 10% or that do not follow the parameters, established by the Ministry of Healthcare, concerning volumes, quality, outcome of treatments.

The Ministerial Decree of June 21, 2016 (the "**Healthcare Decree**") concerns the deficit recovery plan for hospital authorities, university hospital authorities, public science institutions for hospitalization and treatment or other public entities.

The Healthcare Decree's aim is to allow Italian Regions to identify and resolve the following problems: (a) high documented costs if equal to or higher than 10% of revenues or, as an absolute value, equal to at least €10 million; and (b) a failure to comply with the parameters relating to volumes, quality and treatment results.

The same entities must submit, to their local Region, a three-year recovery plan-which is regularly monitored (on both a quarterly and yearly basis)-aiming to reach/re-establish balance, to be defined in accordance with the Healthcare Decree guidelines. In particular, the plan must:

(a) analyze the entities' economic and management situation of the last three years;

(b) define a recovery strategy;

(c) draft an estimated and programed profit and loss statement;

(d) define means of monitoring, verifying and analyzing the plan, by means of quality and quantity indicators; and

(e) take into account any regional plan, as applicable.

Centers of responsibility and cost must be set up in every entity to which the recovery plan applies. Should the plan fail to be approved, or in the event of a negative outcome of a yearly verification, the general managers shall be required to leave their office.

In the Company's view, the Healthcare Decree substantially reproduces for hospital authorities what is already provided for the Region in relation to the recovery plan. The aim is to reduce the deficit of the hospital authority through a reorganization plan with consequent cut of the costs. At this stage the Company deems that there are not significant risks, or in any event different, from the experience gained by the Company on Regions under recovery or receivership (thus, controlled by the MEF), obliged to draft plans more complex than those to be prepared by the hospital authorities. According to the Company, the risks will be the same in both circumstances: possible contractions in payment terms (that could entail an higher purchase commission of the receivables towards those entities).

Enforceability of the sale of receivables towards public cntities

The relevant provisions concerning the sale of business receivables apply to the agreements with entities required to comply with Legislative Decree No. 50 of 2016 (the "**Public Procurement Code**"), such as healthcare authorities and the public administration. Furthermore, Article 106 of the Public Procurement Code provides special rules with respect to the mechanisms of enforceability of such sale, stating that "for the purpose of enforcing actions *vis-à-vis* the commissioning bodies which are public authorities, the sale of receivables must be executed through a public deed or an authenticated private act and must be notified to the contracting debtors. The sale of receivables deriving from tenders, authorization, design competition, are effective and enforceable against the commissioning bodies which are also public authorities if these do not oppose the sale with a communication to be notified to the transferor and the transferee within forty-five days from the notification of the sale. The public administration, in the contracts or in a separate document, is allowed to accept the transfer by the contractor of all or part of the receivables that will become due. In any case, the public administration which was notified of the sale is entitled to enforce against the assignee all rights enforceable against the contractor-transferor under the contract entered into with such transferor in relation to works, services, supplies and design".

Following the entry into force of the Law Decree No. 66 of April 24, 2014, Article 106 of the Public Procurement Code does not apply to the sale of receivables certified through the electronic platform for the electronic management of the issuance of the certificates. The sales of certified receivables, in fact, must be considered as notified, effective and enforceable against the transferred public administration from the date of communication of the sale to the public administration through the electronic platform, which provides for a certain date, unless the notice is not opposed within seven days from the receipt of such communication.

Non-foreclosure of Expenditures of Healthcare Institutions

According to the applicable provisions of the Law Decree No. 66 of April 24, 2014 (that recently amended the current framework), the amounts due in any way to ASL and/or AO and to entities of hospitalization and scientific healthcare "are not subject to enforcement up to the amounts consisting in wages and salaries of employees or authorized external employees, as well as to funds earmarked for the purpose of provision of essential healthcare services defined by the Minister of Healthcare, in agreement with the Minister of the Treasury, to be issued within two months from the date of entry into force of the law of conversion of this Decree Law. To this end, the administrative body of the aforementioned entities, by resolution to be adopted every three months, quantifies in advance the sums recalled in the first period". The essential healthcare services have been identified by the relevant provisions in: "a) basic general and pediatric medical assistance; b) medical and specialist internal assistance; c) public or external authorized hospital compulsory assistance; d) pharmaceutical care". The law has thus intended to confer the non-disposal nature to receivables and amounts stationed in the budget of the healthcare agencies, to the extent that these items prove to be "intended for a public service".

Split-payment for VAT related to transactions with public entities

The 2015 Budget Law introduced changes to the VAT regime applicable to transaction carried out by public entities, including debtors within the Italian national healthcare system and the public administration, referred to as the Split Payment Mechanism.

The Split Payment Mechanism was introduced in EU Directive No. 2006/112/CE of November 28, 2006 ("**VAT Directive**") dealing with the common system of value added tax. The VAT Directive expressly provides the possibility of derogating from the ordinary charge system; allowing for the adoption of alternative systems *provided that* they are authorized by the Council of the European Union. The authorization was granted on July 14, 2015. The Council of European Union confirmed the starting date for the period of eligibility as of January 1, 2015 as provided in 2015 Italian Stability Law.

Its purpose is to counter VAT evasion in certain economic sectors in which, as noted by the financial administration, this kind of evasion has been particularly accentuated.

In details, pursuant to such mechanism, VAT on certain sales of goods and provisions of services rendered to public entities by suppliers will be paid by public entities and not by suppliers, as required under the previously applicable legislation. Therefore, payment of VAT will be made to the Tax authority directly by the public entities, while payment of the taxable amount will be made to suppliers. The public entity's supplier may claim, as a priority, on a quarterly and annual basis, the reimbursement of the deductible surpluses pursuant to the VAT Decree.

The Split Payment Mechanism was authorized by the European Commission effective from January 1, 2015 and will be applicable until December 31, 2017. By that date, adequate controls should have been developed based on the data acquired through electronic invoicing.

The Italian government through the Ministry of Finance has recently applied for the extension of said measure to 2020. In connection with this request, the Ministry also requested that the European Commission verify whether it is possible to extend the application of the Split Payment Mechanism to operations and entities not previously included in this regime (which was previously restricted to purchases made by public administrations).

Whistleblowing

The Legislative Decree which implemented Directive No. 2013/36 / EU (CRD IV Directive), incorporated Article 52—*bis* in the Consolidated Banking Act, entitled "*Internal Systems for the reporting of violations*". The Bank of Italy implemented article 52—*bis* of the Consolidated Banking Act by publishing, on July 21, 2015, the eleventh update to Circular No. 285 of December 17, 2013, entitled "*Supervisory Provisions for Banks*".

The new regulation establishes, for banks, the requirement to have an internal reporting system (*whistleblowing*) that allows their staff to report acts or facts that may constitute a breach of the rules governing banking activities, as defined by Article 10 of the Consolidated Banking Act. In particular, banks are required to (i) identify the person responsible for the internal reporting system; (ii) define the internal reporting procedure and the timing of all stages of the procedure transposed into operating procedures and approved by the Board of Directors, ensuring impartiality and independent judgment of those who receive, examine and evaluate the reports as well as the confidentiality and protection of personal data of the person who make the report and the reported person; and (iii) circulate in a clear and exhaustive way, to all the staff, the reporting procedure adopted, including those measures to ensure privacy protection.

Spain

Overview of Regulations Applicable to Spanish Branches of EU banks

Spanish branches of banks authorized to conduct business in other EU member states (*e.g.*, Banca Farmafactoring Spa Sucursal en España) are entitled to carry out in Spain activities subject to mutual recognition, as set forth in Directive No. 2013/36/EU, of June 26, 2013, as amended. For this purpose, the relevant authorization granted to the EU bank in its state of origin, its by-laws and the applicable regulations shall entitle it to carry out such activities. When conducting the relevant activities in Spain, the EU bank shall comply with the applicable Spanish regulations on organization and discipline of credit entities, and laws on public interest.

Banking activity in Spain is primarily regulated by the applicable rules enacted by the competent EU institutions, the Spanish Banking Act (Law 10/2014, of June 26, on the organization, supervision and solvency of credit institutions, as amended, "**Law 10/2014**") and the relating developing regulations issued by the Bank of Spain.

The legal and regulatory provisions that are particularly relevant to our business include: (i) the European legislation implementing international treaties, in particular, the so-called "**Basel Accord**", and (ii) the Law on usury (the "**Spanish Law on Usury**").

Regulation of the disclosure of fees and interest rates

Interest rates on most kinds of loans and deposits are not subject to a maximum limit, other than Spanish Law on Usury. Banks must publish their preferential rates, rates applied on overdrafts and fees and commissions charged in connection with banking transactions.

Late Payment in Commercial Transactions

Law 3/2004, of December 29, 2004 establishing measures to fight against late payment in commercial transactions ("**Law 3/2004**"), regulates the term of payments in commercial transactions between undertakings (including professions) or between undertakings and certain transactions carried out by public authorities. Law 3/2004 sets forth that payment shall take place, if not provided in the relevant agreement, within 30 days (which could be amended by the parties with an agreement in writing) from the delivery of the product or the provision of services, or from the date of approval of such delivery. Late payment interests accrue automatically from the expiration of the 30 day period (or the period agreed by the parties), *provided that* the counterparty does not comply with its payment obligations within such term. The default interest will be, if not provided in the relevant agreement, equal to the sum of the interest rate applied by the European Central Bank to its most recent main refinancing operation carried out before the first calendar day of that specific semester, plus at eight bps.

Factoring regulation

Factoring agreements are not specifically regulated under Spanish law. They are usually structured as an assignment of receivables, whereby a portfolio of credits relating to one or more debtors is assigned and therefore civil and commercial legislation regulating the assignment of credits also applies to factoring activities. In particular, the provisions of articles 347 and 348 of the Spanish Commercial Code (the "**Spanish Commercial Code**"), and article 1526 and following of the Spanish Civil Code (the "**Spanish Civil Code**") are applicable. As such, factoring activities in Spain can generally be carried out by enterprises which do not necessarily have to qualify as financial institutions or credit entities.

Under Spanish law, the parties to a factoring agreement are not required to obtain the consent of the debtor whose commercial credits and associated rights are transferred under the agreement, as the debtor is not a party to such agreement. However, in order for the agreement to be enforceable against the debtor, notice of the assignment needs to be given to the debtor and if such notice is not given, the debtor will only be liable to repay the previous creditor. If the debtor is a public entity, such notice needs to be delivered by a certified means (the so called *notificación fehaciente*).

The limitation period (*plazo de prescripción*) for the creditor to bring a claim against the debtor whose receivables have been assigned (as well as to other contract claims) is, as per the general statute of limitations of personal remedies established in article 1964 of the Spanish Civil Code, five years, commencing on the date in which the performance of the relevant obligations could have been demanded. The five year limitation period of article 1964 of the Spanish Civil Code was introduced by Law 42/2015, of

October 5, amending the Civil Procedure Act ("**Law 42/2015**"), which reduced the limitation period from fifteen years to five years. According to the Fifth Transitional Provision of Law 42/2015, when a personal remedy originated from an obligation whose performance could have been demanded prior to October 7, 2015, the previous fifteen year limitation period shall apply, but with a maximum limitation period of October 7, 2020 (i.e. five years after the entry into force of Law 42/2015). If, on the other hand, a personal remedy is originated from an obligation whose performance could only have been demanded after October 7, 2015, the current five year limitation period is applicable. The competent courts to resolve claims for payment deriving from the assignment of receivables are the Spanish Courts of First Instance, which are part of the civil jurisdictional order, in accordance with article 85.1 of the Spanish Judiciary Act (Law 6/1985, of July 1, on the Judiciary). As recourse and Non-Recourse Factoring is neither regulated under the Spanish Commercial Code nor under the Spanish Civil Code, the parties to a factoring agreement can freely negotiate its terms and conditions.

However, under Spanish law it is not possible to assign future credit rights or carry out a global assignment of receivables if the debtor is a Spanish public entity. The credit rights *vis-à-vis* a Spanish public entity will arise before completion of the assignment, which will take place on the approval by the Spanish public entity of the construction certificates or of the supply of goods or services.

Payment by Spanish Public Entities

Under the law on contracts of public entities, Spanish public entities must make payments for the supply of goods or services within thirty days of the date of approval of the delivery (such approval to occur within thirty days of the date of supply of goods or services). In the event that a Spanish public authority does not comply with the above timing for payment, it must pay to the counterparty default interest and compensation, as provided under Law 3/2004.

Pursuant to the abovementioned law, which approves the consolidated text of the Public Sector Contracts Act, for interest to accrue, the counterparty must file the invoice with the relevant administrative register within thirty days of the effective date of supply of the goods or services. Interest will only start accruing thirty days after the date of delivery, or thirty days after the filing of the invoice in case that the counterparty fails to file the invoice with the administrative register within the required time.

In addition, under the Spanish Commercial Code it is not possible to charge interest on due and unpaid interest, although it is possible to capitalize liquid and unpaid interest which, as increased capital, will accrue additional interest.

Default by Public Entities

The amendment of September 27, 2011 to Article 135 of the Spanish Constitution introduces budgetary stability as a principle of conduct for all Spanish public entities. Specifically, it provides that the state and the autonomous regions must not incur structural deficits exceeding the thresholds set by the European Union.

The Organic Law on Budgetary Stability and Financial Sustainability ("**Law 2/2012**"), which develops Article 135 of the Spanish Constitution, defines "*budgetary stability*" as a situation of structural surplus or balance (for the state, autonomous regions, local authorities, and social security entities) and of financial balance (for other public sector entities) in terms of their financing capacity, and "*structural deficit*" as the periodically-adjusted deficit, net of exceptional circumstances and temporary measures.

Law 2/2012 is aimed at: (i) ensuring the financial sustainability of Spanish public entities (the state, autonomous regions and local authorities), including all public sector entities, (ii) reinforcing confidence in the stability of the Spanish economy; and (iii) strengthening the commitment of Spain to the European Union in terms of fiscal stability.

Law 2/2012 imposes three types of restrictions on Spanish public entities, subject to certain exceptions: (i) they must not incur a structural budgetary deficit, (ii) public spending growth of the state, autonomous regions and local authorities must be equal to or lower than the economy's nominal potential growth in the medium-term; and (iii) the public debt/GDP ratio must not exceed 60%. The restrictions mentioned in paragraphs (i) and (iii) may be disregarded in the event of a natural disaster, severe economic downturn or extraordinary emergency situations. In addition, with regards to the prohibition on incurring structural budgetary deficits, this does not apply to local authorities and social security entities, which must maintain a budgetary position at an equilibrium or surplus level. Moreover, should there be any structural reforms in Spain with long-term budgetary effects, Spanish public entities may incur structural deficit of 0.4 percent of

Spanish GDP in aggregate, or any other percentage established by the European Union (such threshold to apply from January 1, 2020). The cap on public debt/GPD ratio of 60%, which will apply from January 1, 2020, will be distributed among Spanish public entities as follows: 44% to the state, 13% to the autonomous regions and 3% to local authorities.

Law 2/2012 provides for preventive, corrective and coercive measures to be taken in case of deviation from the fulfillment of the budgetary stability or public debt objectives.

As a preventive measure, Spanish public entities must monitor their public spending and the risks and costs associated with the granting of guarantees by them to secure credit transactions of public and/or private individuals. In the event that the debt incurred exceeds 95% of the thresholds permitted by law from time to time, the only debt transactions which will be permitted will be those which are treasury-related. In addition, the Spanish government will warn the autonomous regions or local authorities if it identifies a risk in their budgetary stability, debt or spending cap. Public entities must take any necessary measures to address the issue within a month of such warning. Likewise, in the event that the average payment period to suppliers of an autonomous region exceeds the term permitted by law (*i.e.* thirty days, as described in the "**Payment by Spanish Public Entities**" section above) for two consecutive months, the Spanish Ministry of Finance and Public Entities will warn the autonomous region, indicating the amount that the autonomous region must pay to the suppliers and the measures it must take to reduce its average payment period to suppliers. A similar procedure applies to local authorities.

If the above preventive measures are not adopted, the following corrective measures, among others, will apply: (i) all debt transactions (and the granting of guarantees to secure credit transactions) of the autonomous region and all long-term transactions of the local authority will require the state's or the autonomous region's authorization, as applicable, (ii) the defaulting Spanish public entity must draw up a financial economic plan for the correction of the default within the current year and the following year, (iii) the Spanish Ministry of Finance and Public Entities will have the power to draft a report, on a quarterly basis, in order to monitor the implementation of the measures established in the financial economic plan. The Spanish Ministry of Finance and Public Entities will require the defaulting public entity to remedy any deviation from the financial economic plan in the implementation of such measures. If the Spanish Ministry of Finance and Public Entities verifies in the following quarterly report that the measures set out in the financial economic plan have not been complied with and that this may lead to non-compliance with the budgetary stability objective, the coercive measures described below may be imposed. With regards to the average payment period to suppliers of an autonomous region, if this exceeds the term permitted by law for two consecutive months, the Spanish Ministry of Finance and Public Entities will retain and pay the relevant amounts directly to the suppliers.

In the event of non-compliance with the financial economic plan, or if the average payment period to suppliers of an autonomous region exceeds the term permitted by law for two consecutive months, the defaulting public entity must take a resolution on the unavailability of credits and retain credits within 15 days in order to ensure compliance with the budgetary stability objective and make, if so required by the Ministry of Finance and Public Entities, a remunerated deposit with the Bank of Spain for an amount of 0.2% of its nominal GDP. If such measures are not adopted, the Spanish government may appoint a team of experts to assess the economic-budgetary position of the defaulting public entity and to draft a report on the measures to be complied with by the defaulting public entity.

If the autonomous region does not resolve on the unavailability of credits, make the payment to the Bank of Spain, or implement the measures set out by the team of experts, the Spanish government may ask the president of the autonomous region to intervene. Alternatively, the Spanish government, with the approval of the absolute majority of the Senate, will adopt any measures necessary to ensure the forcible execution by the autonomous region. A similar procedure will apply to local authorities and in this case, the persistent non-compliance by the local authority may lead to the dissolution of the local government bodies.

Law 2/2012 provides that the state must not assume the debt commitments of autonomous regions or local authorities, and in turn autonomous regions must not assume the debt commitments of local authorities, other than any financial guarantees which are mutually provided to secure the joint execution of specific projects.

Information Obligations by Public Entities

Spanish public entities must disclose their average payment period to suppliers and have a liquidity plan ensuring compliance with regulations on default or delay in payment.

Portugal

Factoring regulation

Factoring (or financial assignment) activities in Portugal are mainly regulated by the Law Decree No. 171 of July 18, 1995, as amended ("**DL 171/95**") and the legal framework of credit institutions and financial companies, approved by the Law Decree No. 298 of December 31, 1992, as amended ("*Regime Geral das Instituições de Crédito e das Sociedades Financeiras*") ("**RGICSF**"), which, among other provisions, establishes which entities are authorized to pursue factoring activities. As factoring activity has the legal nature of an assignment of credits, the provisions of Article 577 and following of the Portuguese Civil Code are thus applicable.

DL 171/95 provides that financial assignment consists in "*the acquisition of short-term credits, derived from the sale of goods or the provision of services, in domestic and foreign markets*" and also includes ancillary activities such as providing credit risk analysis or legal, commercial or accounting support in connection with the management of assigned credits.

Under a factoring agreement, a remunerated assignment of credits is made by one party (the "**assignor**") to an entity duly authorized to perform the factoring activity (the "**factor/assignee**"), such as credits due from a third party (the debtor of the assigned credits). Under DL 171/95, factoring agreements must: (i) be in writing; (ii) set out the terms of the relationship between the factor/assignee and the assignor; (iii) be supported by invoices or equivalent documents; and (iv) provide for the payment of credits to be made to the assignor on certain conditions. Otherwise, the parties to a factoring agreement can freely negotiate its terms and conditions.

Receivables are purchased through an authenticated private act pursuant to DL 171/95 and the purchase is notified in accordance with Article 583 of the Portuguese Civil Code. Neither an express acceptance by the debtor is necessary nor a denial is requested.

Receivables are mainly purchased together with the "*numero de compromiso*", i.e. a certification of the existence of the receivable.

We point out that:

(a) purchases without the "*numero de copromiso*" have been executed on assignor of a primary standing;

(b) a clause whereby the assignor guarantees assigned documents' conformity to the law regulating the "*numeros de compromisos*" (Law of February 22, 2012) is generally included in the agreements entered into with the Portuguese customers.

As of December 31, 2016, out of the total amount of receivables purchased, an amount equal to 20.4 million (15%) was purchased without "*numero de compromiso*".

For the purpose of interrupting the limitation period of the purchased receivables solicitations are periodically sent and credit collection management procedures provide for the filing of legal actions where certain thresholds of delay in payment to be reached.

Limitation period in Portugal lasts 20 years as regard the capital and 5 years as regard the notes (documents issued by the Company in change for the late payment executed by the debtor) and will be interrupted by a notice of injunction (*Injuncao*). The notice procedure, pursuant to Portuguese law, is carried out through an national IT platform of the Portuguese Ministry of Justice.

Enforcement

The steps which the factor/assignee will need to take to enforce a credit will depend on whether such claim relates to the invoices for the acquired receivables (due by the debtor directly to the factor/assignee) or to the assignment of receivables (due by the debtor to the assignor which shall subsequently transfer such receivables to the factor/assignee). In the former case, it will be necessary to file an injunction or a claim against the debtor at court. In the latter case (for example, where the assignor recedes from the agreement or fails to transfer to the factor/assignee a payment received from the debtor), the terms and conditions of the assignment agreement will determine whether or not a claim needs to be filed at court. Article 703, No. 1 of the Portuguese Code of Civil Procedure provides that if the agreement was executed before, and authenticated (*i.e.* the legitimacy of the parties and the content of the agreement were verified) by, a notary, a lawyer or any other competent authority empowered by law to authenticate, the debt may be enforced by the relevant court without first having to undertake a declaratory process, as such authentication renders the agreement automatically enforceable. If, on the other hand, the agreement was certified (*i.e.* the legitimacy of the parties was verified) by a lawyer following its execution, it will be necessary to file a claim at court, as the agreement will not be automatically enforceable.

Funding of the Portuguese National Healthcare Service

The receivables acquired by us are owed by public enterprise hospitals (EPE hospitals) and joint stock company hospitals (SPA hospitals), which form part of the Portuguese national healthcare service. Under articles ("*bases*") 33 and 34 of the Basic Law on Healthcare ("***Lei de Bases da Saúde***"), the Portuguese National Healthcare Service is financed by the Portuguese State, the income generated from its activities and the fees received for its services ("*taxas moderadoras*"). Each EPE hospital and SPA hospital will enter into a contract with the relevant regional entity which provides for state funding.

Restrictions on the assumption of debt by public entities

The Law on commitments of and late payments by public entities, imposes certain restrictions on the assumption of debts by public entities. For example, a public entity may not assume a debt for an amount exceeding the value of its available funds, and the validity of the debt arising from a commitment depends on the issue of a valid commitment ("*compromiso*") number. With effect from February 22, 2012, if a commitment ("*compromiso*") number has not been granted, the relevant obligation or agreement will not be executable and it will not be possible to make a claim for payment of the debt against the relevant public entity. In addition, if the debt is equal to or exceeds €350,000, the prior approval of the Portuguese Court of Auditors ("*Tribunal de Contas*") must be granted.

Insolvency of the entities of the Portuguese National Healthcare Service

The Portuguese Code on Insolvency and Companies Recovery (CIRE), as amended, does not apply to public entities, such as EPE hospitals and SPA hospitals. EPE hospitals and SPA hospitals are instead subject to article 35 of the Legal Framework of the Corporate Public Sector ("*Regime Jurídico do Sector Empresarial do Estado*"), as amended, pursuant to which the insolvency procedures set out in the relevant legislative decree will apply to EPE hospitals (*i.e.* the legislative decree that is enacted upon their insolvency) and the winding-up and settlement procedures set out in the Portuguese Company Act will instead apply to SPA hospitals, if no specific legislative decree is enacted upon their insolvency.

As EPE hospitals and SPA hospitals are independent legal entities, on their insolvency the State will have no liability towards their creditors. However, under article 35, in the event that an EPE hospital or a SPA hospital records negative equity for three consecutive financial years, the shareholder (*i.e.* the State) shall intervene within a 90-day period following the approval of the financial statements of the third financial year, failing, pursuant to which the relevant entity shall be wound-up.

Poland

Factoring regulation

Factoring agreements are not specifically regulated under Polish law. They are usually structured as an assignment of receivables, whereby claims under agreements are assigned in favor of the factor or as subrogation agreements (in case of reverse factoring) and therefore the provisions of Polish Civil Code will apply. Consequently, factoring activities in Poland can generally be carried out by enterprises which do not necessarily have to qualify as financial institutions or credit entities.

Under Polish law, in absence of a specific statutory or contractual provision to the contrary, the parties to a factoring agreement are not required to obtain the consent of the debtor whose debts are transferred under the agreement, as the debtor is not a party to such agreement. However, in order for the agreement to be enforceable against the debtor, notice of the assignment needs to be given to the debtor and if such notice is not given, the debtor will only be liable to repay the previous creditor.

As neither recourse factoring nor non-recourse factoring is regulated under Polish legislation, the parties to a factoring agreement can freely negotiate its terms and conditions.

While under Polish law it is possible to assign future claims it is not possible to carry out a global assignment of receivables.

Transfer of receivables under the Act on Healthcare Activities

The issue of assignment of receivables is regulated by the articles 509-518 of Polish Civil Code. The basic provision states that creditor may, without the debtor's consent, transfer a receivable to a third party (assignment) unless it would be contrary to statute, to a contractual reservation (*pactum de non cedendo*) or to the nature of the obligation. Sale of receivables shall be invalid if it is contrary to the statute. In case of contractual reservations prohibiting the assignment (*pactum de non cedendo*), an additional consent from the debtor will be required under the pain of nullity. All rights connected with a receivable, in particular a claim for the outstanding interest passed along with it to the acquiring party. In a case where a receivable has been evidenced in writing, the assignment of this receivable shall also be evidenced in writing. Additionally, transferring receivables secured by mortgage or registered pledge requires an entry in a land and mortgage register or pledge register respectively. Payment of additional court fees would also be an issue.

There is no requirement to notify the debtor about the assignment; however, making payment to the former creditor is effective towards the acquiring party until the creditor notifies the debtor of the assignment, unless the debtor knew of the assignment at the moment of the performance.

The general rules on the limitation of claims are regulated in the Articles 117-125 of the Polish Civil Code the "**PCC**"). In general, the period of limitation (prescription period) amounts to ten years, and for periodical payment claims as well as for claims connected with conducting economic activity-it should be three years from the day when the claim became mature, unless specific provision provides otherwise (Article 118 of the PCC). According to the Article 120 § 1 of the PCC, the course of limitation commences on the day when the claim became mature or if the maturity of the claim depends on undertaking a specified act by the entitled person, the course of the time limit commences on the day when the claim would have become mature if the entitled person undertook the act at the earliest possible opportunity. Pursuant to the Article 123 of the PCC, the running of the period of limitation is interrupted by: 1) any act before the court or other authority entitled to hear cases or enforce claims; 2) by the acknowledgement of the claim by the person against whom the claim is made; or 3) by the initiation of mediation. Following each interruption of limitation, it commences to run afresh. In case of the court proceedings the limitation shall not commence to run afresh, until the proceeding is over (Article 124 of the PCC). Periods of limitation may not be shortened or prolonged by a juridical act (Article 119 of the PCC).

In accordance with the Article 117 § 2 of the PCC, following the lapse of the period of limitation, the one against whom a claim is to be pursued may avoid the duty to satisfy it, unless he waives his right to use the defense of limitation.

In practice, the prescription does not make the claim expire-the creditor may continue claiming the prescribed receivable, but the debtor may refer to the statute of limitations and apply for the dismissal of a claim due to its limitation. If this is the case, the court should state that the claim exists but cannot be executed due to the lapse of the period of limitation. After the lapse of the period of limitation, the claim exists in the form of natural claim and may only be fulfilled by the voluntary will of the debtor.

The assignment of receivables by the sellers to Magellan, which is performed according to the articles of the Polish Civil Code as set out above, is notified to the transferred debtor by the seller on the day of executing the agreement on the assignment of receivables. Such notification of the assignment to the transferred debtor is not required by law for its effectiveness, however the seller is under an obligation to transfer any receivables received from the debtor after the execution of such agreement. Pursuant to the agreement, the seller undertakes to deliver to Magellan all of the documents confirming the existence of the receivables and shall be responsible for any claims towards the debtor if the claim cannot be satisfied in part or in full due to the improper performance by the seller of such assignment agreement or the agreement between the seller and the debtor.

Certain types of receivables may be subject to additional requirements. Pursuant to Article 54 sec. 5 of the Act on Healthcare Activities, any change of creditor for an independent public healthcare provider or organization (Samodzielny publiczny zakład opieki zdrowotnej), such as a hospital, must be approved by its founding body. Approval is granted after the founding body has assured the continued provision of healthcare services, following an analysis of the healthcare provider's financials and results from the previous year. Approval is also subject to a consultation with the director of the public healthcare organization. Any breach of these requirements shall result in any legal actions involving the healthcare organization being deemed void.

The standard process related to receivables recovery is regulated the Polish Civil Procedure Code. This includes simplified methods of debt collection as well as traditional in-court procedure. The same act regulates the execution of receivables. The basis for execution is an enforceable title. An enforceable title is an enforcement order with a writ of execution granted by the court. An enforcement order could be for instance a non-appealable or immediately enforceable court decision as well as a settlement reached before the court or a non-appealable or immediately enforceable ruling of a court clerk.

Moreover, the recovery of receivables may raise the question concerning personal data protection. However, due to the Polish Personal Protection Act personal data may be processed if it is necessary to achieve legitimate purposes such as pursuit of claims associated with economic activities.

Slovakia

Factoring, forfaiting and financial leasing regulation

The activities of factoring, forfaiting and financial leasing qualify as so called "free trade licenses" within the meaning of the Trade Licensing Act, as amended.

However, the National Bank of Slovakia (*Národná banka Slovenska*) (the "**NBS**") does conduct some regulatory oversight in respect of the factoring, forfaiting and financial leasing market, by virtue of the NBS Act (the "**NBS Act**"). The NBS Act requires that natural persons, legal entities and public authorities provide information, reports, statements and other material and explanation to the NBS if these are necessary for the NBS to carry out its tasks laid down in the NBS Act and other legal regulations. Businesses carrying out factoring, forfaiting and financial leasing within the scope of their business activities may be required to provide quarterly financial statements to the NBS. The template for the financial information to be provided to the NBS and additional instructions regarding the requirement are included in the annex of the decree. This requirement only applies to businesses which are requested in writing by the NBS to provide such statements. Failure to comply with this obligation may result in the NBS applying remedies and measures to resolve non-compliance and enforce a monetary penalty of up to €30,000 (or up to €60,000 in cases of repeated or serious non-compliance). Application of these measures will depend on the severity, extent, duration, consequences and nature of non-compliance.

Factoring agreements are not specifically regulated under Slovak law. They are usually structured as an assignment of receivables, whereby claims under agreements are assigned in favor of the factor and therefore the provisions of the Slovak Civil Code will apply. Under Slovak law, absent a specific statutory or contractual provision to the contrary, the parties to a factoring agreement are not required to obtain the consent of the debtor whose debts are transferred under the agreement, and the debtor is not a party to such agreement. However, in order for the agreement to be enforceable against the debtor, notice of the assignment needs to be given to the debtor and if such notice is not given, the debtor will only be liable to repay the previous creditor.

Restrictions on enforcement proceedings

As a result of Section 61c of the Slovak Enforcement Code, some types of state-owned property (e.g. certain real property, the state budget income or state-owned securities) have express immunity from enforcement proceedings, whereas other state-owned property, not expressly excluded from enforcement by the Slovak Enforcement Code, may be excluded on the application of the state, if the state successfully claims the property is needed for its tasks or is needed due to reasons of public interest. Similarly, Section 8 (10) of the Act on the budget rules of public authorities stipulates that funds provided from the state budget or the budget of the European Union, as well as the movable or fixed assets procured for such funds are not subject to enforcement under the Slovak Enforcement Code. This effectively means that certain property may not be included in enforcement proceedings and used for recovery of debt. Finally, in accordance with Section 56 (4) of the Slovak Enforcement Code, even in situations when certain healthcare providers are technically not immune from enforcement proceedings, they may apply for a postponement of the enforcement, if the immediate enforcement could prejudice the provision and/or securing of healthcare.

Company in crisis

As of January 1, 2016, the legal concept of a company in crisis was added to the Commercial Code, as amended. A company is considered to be in crisis if it is insolvent, or it is at risk of becoming insolvent. Pursuant to the Bankruptcy Act of Slovakia, a company is considered to be insolvent if (i) it is incapable to repay, within 30 days of the repayment term, at least two monetary liabilities to more than one creditor, or (ii) it has an obligation to keep accounts, it has more than one creditor and its liabilities are higher than its assets. A company is at risk of becoming insolvent if the ratio of its equity to its liabilities is less than 6 to 100 for the year 2017 (the ratio will gradually increase to 8 to 100 in 2018). A loan or similar funding provided to a company in crisis will be considered to be funding substituting its own funds if it is provided by (i) a member of the statutory body of the company, employee in the direct management control of the statutory body, authorized agent, branch manager, a member of the supervisory board, (ii) a person who has a direct or indirect share of at least 5% of the registered capital of the company or voting rights of the company or has the possibility to exact influence on the management of the company in a manner comparable to the influence corresponding to such ownership share, (iii) a silent partner, (iv) a related party of the persons under aforementioned points (i)-(iii), or (v) a person acting on behalf of the persons under aforementioned points (i)-(iii). Such funding substituting the own funds of a company may not be returned while the company is in crisis or if the company would come into crisis as a result.

MANAGEMENT

The following is a summary of certain information concerning our management, certain provisions of our by-laws (statuto) and Italian law regarding corporate governance. This summary is qualified in its entirety by reference to our by-laws and/or Italian law, as the case may be, and it does not purport to be complete.

Our Management

We are a joint stock company (*società per azioni*) governed by the laws of Italy and we are controlled by BFF Luxembourg. We are managed by a board of directors (*Consiglio di Amministrazione*) (the "**Board of Directors**") which has the power to delegate its general authority to one or more managing directors and/or to an executive committee if the number of directors is greater than nine members, within the limits provided under Italian law. The Board of Directors can appoint a chief executive officer. In addition, the Italian Civil Code requires us to have a board of statutory auditors (*Collegio Sindacale*) (the "**Board of Statutory Auditors**") which functions as a supervisory body.

Board of Directors

As of the date of this Offering Circular our Board of Directors is composed of ten members. The current members of the Board of Directors were appointed on November 4, 2015. On December 21, 2015 our Board of Directors was further integrated with the appointment by co-optation of two new members, confirmed at the ordinary shareholders' meeting on March 31, 2016. Certain members of the Board of Directors have previously served as directors of the Company before such appointment. In particular, (i) Salvatore Messina was appointed for the first time as member and Chairman of the Board of Directors of the Company on January 14, 2013; (ii) Massimiliano Belingheri was appointed for the first time as director of the Company on December 19, 2006 and, as from December 24, 2013, as Chief Executive Director; (iii) Federico Fornari Luswergh was appointed for the first time as director of the Company on April 24, 2010; (iv) Elisabetta Oliveri was appointed for the first time as director of the Company on July 14, 2014; and (v) Marco Rabuffi was appointed for the first time as director of the Company on July 22, 1985. The members of the Board of Directors have been appointed to hold office until the date of the ordinary shareholders' meeting to approve our financial statements as of and for the year ended December 31, 2017.

The following table sets forth the current members of our Board of Directors as of the date of this Offering Circular.

Name	Position	Date of birth
Salvatore Messina(1)(2)	Chairman	January 1, 1946
Luigi Sbrozzi(2)	Vice Chairman	November 30, 1982
Federico Fornari Luswergh(1)(2)	Director	September 26, 1964
Massimiliano Belingheri(3)	Chief Executive Officer	October 30, 1974
Gabriele Michaela Schindler Aumann(1)(2)	Director	June 16, 1953
Ben Carlton Langworthy(2)	Director	August 12, 1978
Mark John Arnold(2)	Director	March 2, 1968
Giampaolo Zambeletti Rossi(1)(2)	Director	May 4, 1941
Marco Rabuffi(2)	Director	May 26, 1948
Elisabetta Oliveri(1)(2)	Director	October 25, 1963

(1) Independent director.

(2) Non-Executive director.

(3) Executive director.

Pursuant to Article 14 of our By-laws, effective as of the Trading Date we will be required to be governed by a Board of Directors composed of a minimum of 5 and a maximum of 13 members, the precise number to be decided by shareholder resolution, with a minimum of two, three or four independent members in the case that the Board of Directors has less than seven, from seven to twelve, or more than twelve members, respectively. Our shareholders' meeting on November 4, 2015 resolved that the Board of Directors shall be composed of 10 members (effective as of the Trading Date).

All of the Board of Directors members appointed by our ordinary shareholders' meeting on November 4, 2015 have formally accepted their position effective as of the Trading Date

The business address of each member of our Board of Directors is Via Domenichino, No. 5, Milan, 20149, Italy.

Set out below are brief biographies of each of the Board of Directors' members as of the Trading Date.

Salvatore Messina. In 1969, Mr. Messina graduated from the University of Catania with a degree in Law. In 1971 Mr. Messina began his professional career at the Bank of Italy. In July 2004, he was promoted to manager of the Milan branch. During that time, Mr. Messina was a member and coordinator of several internal teams and represented the Bank of Italy at various conferences and seminars for both public and private sector entities. From 2011 to June 2014, Mr. Messina represented Banca Esperia S.p.A. as an independent director and since October 1, 2015 he has been the Chairman of the Board of Directors of the Diners Club Italia S.r.l. Currently, Mr. Messina is a member of the Supervisory Board (*Organismo di Vigilanza*) of Banca Monte dei Paschi di Siena and of various companies associated with the Group. Since July 10, 2015 he has been a member of the Supervisory Body (pursuant to the decree no.231/2001) of Unicredit S.p.A. Since 2011, he has been a professor of Public Law at the School of Banking, Financial and Insurance Sciences of Università Cattolica del Sacro Cuore in Milan. He is also a Grand Officer of the Order of Merit of the Republic of Italy (*Grande Ufficiale dell'Ordine al Merito della Repubblica Italiana*) and a lawyer.

Luigi Sbrozzi. In 2004, Mr. Sbrozzi graduated in Economics and Finance from Bocconi University in Milan and subsequently received an M.B.A. *cum laude* in Finance from Bocconi University in 2006. He began his career at the private equity investment firm TA Associates in London as an associate. He subsequently worked as Director in the financial services team of CVC Capital Partners for four years. During these years, Mr. Sbrozzi helped orchestrate the Skrill Group Ltd acquisition and Avolon Aerospace Ltd. investment and was a member of the board of directors of both companies. In 2014, he joined as Managing Director the European financial services investment team of the Centerbridge Partners. In this capacity, he managed the Banca Farmafactoring S.p.A. acquisition and the Tranquillidade investment.

Massimiliano Belingheri. Mr. Belingheri graduated *cum laude* with a degree in Economics of Public Administrations and International Institutions from Bocconi University in Milan in 1997. He studied abroad at Wharton School of the University of Pennsylvania in Philadelphia. After graduating, he began his career as a business analyst at McKinsey & Company in the Milan and London offices. In 2001, Mr. Belingheri earned a Masters of Business Administration as a Baker Scholar from Harvard Business School. He subsequently joined the financial services team of Apax Partners, where he was promoted to Principal in 2003 and Partner in 2007. In 2008, Mr. Belingheri was promoted to head of financial services of Apax Partners in Europe. During this time, he was involved in several investment and disinvestment transactions in the financial services and media sectors. Additionally, he served as a member of the board of directors of Azimut Holding S.p.A. and Psagot Investment House from 2002 to 2004 and 2011 to 2013 respectively. Mr. Belingheri is currently a member of the board of directors of the Spanish Chamber of Commerce in Italy and member of the board of directors of Assifact.

Gabriele Michaela Schindler Aumann. Mrs. Aumann graduated with a degree in Economics from the University of Ausburg in 1977. From 1991 to 1998 she worked for Bayersche Landesbank as Head of the Credit Department in Munich. From 1998 to 2002, she became Head of Credit Department Large Corporates and Energy. In 2003, she became Head of Lending Department Globals and later Global Division Head of the Credit and Collateral Services department. She then served as General Manager of the Milan branch from 2008 to 2014.

Mark John Arnold. Mr. Arnold graduated *cum laude* with a degree in Management from the University of Liverpool in 1990. In 1993, he completed a master's degree in Marketing at Farnborough College in Hampshire. Since 2001, Mr. Arnold has held various top management positions with highly rated banking institutions. From, 2001 to 2004, he was CEO at GE Money in Lisbon. Then, from 2004 to 2008, he was chairman and CEO at Budapest Bank (GE). From 2009 to 2010 he was CEO at GE Banking Asia. From 2010 to 2013 he was CEO at Bank of Ayudhya (Krungsri). From 2013 to 2014, he was CEO at Serbank Europe (Vienna). Currently, Mr. Arnold is an executive in residence at Centerbridge Partners in London.

Federico Fornari Luswergh. Mr. Fornari Luswergh graduated *cum laude* from La Sapienza University in Rome with a degree in Economics in 1989. He has been a member of the Order of Chartered Accountants (*Ordine dei Dottori Commercialisti*) since 1990 and of the Register of Auditors (*Registro dei Revisori Contabili*) since 1992. In 1990, he joined Deloitte & Touche S.p.A. and was subsequently promoted to

Senior Auditor. From 1994 to 2002, he held various offices in the finance and management control area in the Goodyear group, since he became President at Goodyear Italiana S.p.A. and CFO at Goodyear Dunlop Tires Italia S.p.A. From 2002 to 2007, he worked as general manager of centralized services of Industria Farmaceutica Serono S.p.A. Since 2007, he has been the CFO of the companies of the Merck Group in Italy. Mr. Fornari Luswergh previously served as a member of the board of directors of Goodyear Italiana S.p.A., and Industria Farmaceutica Serono S.p.A. Currently, he is a member of the board of directors at Merck Serono S.p.A., Istituto di Ricerche Biomediche A. Maxer 'RBM S.p.A.', Allergopharma S.p.A. and Fonchim "*Associazione Fondo Pensione Complementare a capitalizzazione per i lavoratori dell'industria chimica e farmaceutica e dei settori affini*".

Ben Carlton Langworthy. Mr. Langworthy graduated magna *cum laude* with a B.A. in economics from Yale University, where he was elected to Phi Beta Kappa in 2000. He subsequently earned a Masters of Business Administration at Harvard Business School. Mr. Langworthy started his professional career collaborating with the Merger & Acquisition departments at Donaldson, Lufkin & Jenrette and Credit Suisse First Boston. He subsequently joined the Private Equity team of Soros Fund Management as an associate. In 2006, Mr. Carlton Langworthy joined Centerbridge Partners as Senior Managing Director responsible for the European private equity sector.

Elisabetta Oliveri. Mrs. Oliveri graduated *cum laude* with a degree in electronic engineering from the University of Geneva in 1987. She then started her career at Marconi S.p.A. and subsequently became Senior Vice President of strategies of Marconi's Mobile department. In 2001, she became the Director of Strategies and Business Development at Sirti group and from 2003 to 2008, she was general manager and member of the board of directors in various companies of the Sirti group. From 2008 to 2010, she was CEO of the Sirti group. Currently, Mrs. Oliveri is managing director of the Group Fabbri Vignola S.p.A. Since 2010, she has been non-executive director of various Italian and foreign companies. From 2011 to 2014, Mrs. Oliveri was a director of ATM-*Azienda Trasporti Milanesi S.p.A.* Since 2010, she has been a member of the board of directors and chairman of the Control and Risk Committee of Snam S.p.A. Additionally, since 2012, she has also been a member of the board of directors of Gruppo Editoriale L'Espresso, acting also as chairman of the Control and Risk Committee. She is Lead Independent Director of Sagat S.p.A.

Marco Rabuffi. In 1967, Mr. Rabuffi began his career as a programmer at Praxis Calcolo S.p.A. From 1973 to 2005, Mr. Rabuffi worked in various management capacities both in Italy and abroad, within the Bracco group, including the title of Group Vice President. From June 2011 to June 2014, he was a member of the board of directors of Assifact and joined Assifact's executive committee in 2012. Mr. Rabuffi has been a member of our Board since 1985. He also served as managing director of the Company in several offices, from 1987 to April 2007, from March 2010 to September 2010, and from February 2011 to December 2013. From 2000 to January 2013, Mr. Rabuffi served as president of the Company. Mr. Rabuffi has also been the president of the Farmafactoring Foundation since its establishment.

Giampaolo Zambeletti Rossi. Mr. Zambeletti Rossi graduated with a degree in Chemistry from the University of Pavia in 1966. In 1968, he founded Zambeletti España S.A., where he served as CEO until 1980. In 1980, he became president and CEO of Zambeletti S.p.A. that he sold in 1984. However, he served as president, CEO and general manager of the company until 1989. In 1989, Mr. Zambeletti Rossi acquired a controlling stake in and became the CEO of Ellem Industria Farmaceutica. After selling his stake in Ellem Industria Farmaceutica in 1993, Mr. Zambeletti Rossi was involved in financial activities in London and in industrial companies operating in the chemical and pharmaceutical fields in Italy. In November 2011, he was involved in the transfer of certain companies of the Telecom group. In June 2003, he was appointed Group Senior Vice President in International Affairs. In March 2008, he became Senior Advisor for M&A projects. In 2008, he was appointed vice president of Unidad Editorial, a Spanish subsidiary of RCS Mediagroup. From 2009 to 2012, Mr. Zambeletti Rossi was chairman of Italgas S.p.A. and from 2012 to 2014, he was member of the board of directors at Tages Group. He has been the chairman of RCS since 2010 and an independent director of Cellnex S.A. since April 2015.

All members of the Board of Directors meet the integrity and experience requirements under applicable Italian law as well as the additional requirements under the Board rules.

None of the members of the Board of Directors in office as of the date of this Offering Circular or the members of the Board of Directors who will take office as of the Trading Date is related to any of the other members of the Board of Directors, the members of the Board of Statutory Auditors or the key officers of the Company.

The following table sets forth the companies for which the members of the Board of Directors: (i) currently or have previously served as a member of an administrative, management or supervisory body; or (ii) have been shareholders during the past five years, along with an indication of their status or their position as of the date of this Offering Circular.

Name	Company	Office	Status as of the date of the Offering Circular
Salvatore Messina	Banca Farmafactoring S.p.A. (former Farmafactoring S.p.A.)	Chairman of the Board of Directors	Ongoing
	Diners Club Italia S.r.l.	Chairman of the Board of Directors	Ongoing
	Banca Esperia S.p.A	Director (consigliere di amministrazione	Ceased
	Fondazione Farmafactoring	Director	Ongoing
Luigi Sbrozzi	Banca Farmafactoring S.p.A.	Deputy Chairman of the Board of Directors	Ongoing
	BFF Luxembourg S.à.r.l.	Director	Ongoing
	Avolon Aerospace Limited	Director	Ceased
	Skrill Limited	Director	Ceased
	Sentinel Group Holdings S.A.	Director	Ceased
	Sentinel Holdings S.à.r.l.	Director	Ceased
	Sentinel Topco Limited	Director	Ceased
	Sentinel Holdco 2 Limited	Director	Ceased
	Sentinel Midco Limited	Director	Ceased
	Sentinel Bidco Limited	Director	Ceased
Federico Fornari Luswergh .	Banca Farmafactoring S.p.A.	Director	Ongoing
	Merck Serono S.p.A.	Director	Ongoing
	Merck S.p.A.	Managing Director	Ongoing
	Allergopharma S.p.A.	Director	Ongoing
	Istituto di Ricerche Biomediche Antoine Marxer RBM S.p.A	Director	Ongoing
	Fonchim	Director	Ongoing
	RBM S.p.A.	Director	Ongoing
	Sigma Aldrich S.r.l.	Director	Ongoing
	Banca Farmafactoring S.p.A.	Vice President	Ceased
	Sigma Aldrich S.r.l.	Director	Ongoing
Massimiliano Belingheri	Banca Farmafactoring S.p.A. (former Farmafactoring S.p.A.)	Director	Ongoing
	Banca Farmafactoring S.p.A. (former Farmafactoring S.p.A.)	Managing Director	Ongoing
	Farmafactoring España S.A.U.	Director	Ongoing
	Farmafactoring España S.A.U.	Managing Director	Ongoing
	Farmafactoring España S.A.U.	Chairman of the Board of Directors	Ongoing
	FF Holding S.p.A.	Director	Ongoing
	Magellan SA	Chairman of the Supervisory Board	Ongoing

Name	Company	Office	Status as of the date of the Offering Circular
	Psagot Investment House	Director	Ceased
	Everest AP.PS. Ltd	Director	Ceased
	Himalaya AP.PS. Ltd	Director	Ceased
	Apax Partners LLP	Partner	Ceased
	AP.PS. Acquisition Ltd	Director	Ceased
	Farma Holding S.à.r.l.	Director	Ceased
	PRO.GE.S.CAL S.r.l. under liquidation	Director	Ceased
Gabriele Michaela Schindler Aumann	Banca Farmafactoring S.p.A.	Director	Ongoing
Ben Carlton Langworthy . . .	Banca Farmafactoring S.p.A.	Director	Ongoing
	BFF Lux Holdings S.à.r.l.	Director	Ceased
	FB Lux Holdings GB	Director	Ongoing
	FB Lux Holdings S.C.A.	Director	Ongoing
	Bonhom S.a.S.	Director	Ongoing
	Aktua Soluciones Financieras S.L.U.	Director	Ongoing
	Aktua Soluciones Financieras S.L. Holdings	Director	Ongoing
	Resort Finance America LLC	Director	Ongoing
	LV Tower Holdings, LLC	Director	Ongoing
	LV Tower 52 Laonco, LLC	Director	Ongoing
	GTH LLC	Director	Ongoing
	Reachford Limited	Director	Ongoing
	Crestside Project Management Limited	Director	Ongoing
	Gembira Limited	Director	Ongoing
	Broadcrest Limited	Director	Ongoing
	Circleside Limited	Director	Ongoing
	Lantern Asset Management	Director	Ceased
	Bankunited, inc.	Observer	Ceased
Mark John Arnold	Banca Farmafactoring S.p.A.	Director	Ongoing
	SBERBANK EUROPE AG	Director	Ceased
	SBERBANK SLOVAKIA	Director	Ceased
	SBERBANK CZECH	Director	Ceased
	BANK of AYUDHYA PUBLIC COMPANY	Director	Ceased
Giampaolo Zambeletti Rossi	Banca Farmafactoring S.p.A.	Director	Ongoing
	RCS Investimenti S.p.A.	Chairman of the Board of Directors	Ongoing
	RCS Investimenti S.p.A.	Director	Ongoing
	Unidad Editorial S.A. Madrid	Director	Ongoing
	Unidad Editorial S.A. Madrid	Vice President	Ongoing
	Cellnex S.A. Barcelona	Independent Director	Ongoing
	Società Italiana per il GAS per azioni	Director	Ceased
	Società Italiana per il GAS per azioni	Chairman of the Board of Directors	Ceased
	Tages Holdings S.p.A.	Director	Ceased

Name	Company	Office	Status as of the date of the Offering Circular
Elisabetta Oliveri	Banca Farmafactoring S.p.A.	Director	Ongoing
	Sagat S.p.A	Director	Ongoing
	Fabbri Vignola S.p.A.	Managing Director	Ongoing
	Gruppo Fabbri Vignola S.p.A.	Managing Director	Ongoing
	Gruppo Fabbri (Switzerland) S.A.	Sole Director	Ongoing
	Ser Man S.r.l.	Sole Director	Ongoing
	Gruppo Editoriale l'Espresso S.p.A.	Director	Ongoing
	Snam S.p.A.	Director	Ongoing
	Automac UK	Director	Ongoing
	Eutelsat S.A.	Director	Ongoing
	Monzino S.p.A.	Director	Ceased
	MOGAR MUSIC S.p.A.	Director	Ceased
	Azienda Trasporti Milanesi-ATM S.p.A.	Director	Ceased
	Cogei S.r.l.	Chairman of the Board of Directors	Ceased
Marco Rabuffi	Banca Farmafactoring S.p.A. (former Farmafactoring S.p.A.)	Director	Ongoing
	Banca Farmafactoring S.p.A. (former Farmafactoring S.p.A.)	Chairman of the Board of Directors	Ceased
	Banca Farmafactoring S.p.A. (former Farmafactoring S.p.A.)	Managing Director	Ceased
	Farmafactoring España S.A.U.	Director	Ceased
	Farmafactoring España S.A.U.	Managing Director	Ceased
	Farmafactoring España S.A.U.	Chairman of the Board of Directors	Ceased
	FF Holding S.p.A.	Director	Ceased
	Bracco Imaging S.p.A.	Director	Ceased
	Bracco Eisai Co. Ltd (Japan)	Director	Ceased
	Bracco PTY (Australia)	Director	Ceased
	Bracco Diagnostics Inc. (USA)	Director	Ceased
	Bracco Far Fast Ltd	Chairman of the Board of Directors	Ceased
	Bracco Diagnostic Asia Co. Ltd	Chairman of the Board of Directors	Ceased
	Bracco Sine Pharmaceuticals Corp Ltd (China)	Chairman of the Board of Directors	Ceased
	Tirolea S.r.l.	Sole Managing Director	Ongoing

Name	Company	% Participation	Status as of the date of the Offering Circular
Massimiliano Belingheri . .	BFF Luxembourg	**2.28%**	Ongoing
	Pro.Ge.Tur S.r.l.	**14%**	Ongoing
	Farma Holding Sarl	**2.9%**	Ongoing
Marco Rabuffi	Banca Famafactoring through Unione Fiduciaria	**0.45%**	Ongoing
Elisabetta Oliveri	Cogei S.r.l.	**40%**	Ceased

To the best of our knowledge in the last five years, none of the members of our Board of Directors, as of the date of this Offering Circular, have been: (i) convicted in relation to fraudulent offenses, (ii) a member of an administrative, management or supervisory body or a senior manager of a company in bankruptcy, receivership or liquidation, (iii) the subject of an official public investigation and/or sanctions by statutory or regulatory authorities, or (iv) removed or disqualified by a court from an administrative, management or supervisory body of the Company or from acting in the management of another company.

Board Committees and Other Corporate Governance Matters

In order to ensure compliance with certain corporate governance matters contained in the recommendations of the Self-Regulatory Code, the Board of Directors, at its meetings held on April 28 and June 23, 2016, resolved, among other things, to establish committees for (i) the determination of officers' remuneration (the "**Remuneration Committee**"), (ii) the proposal of the size and composition of our Board ("**Nominating Committee**"), (iii) the oversight of internal control and corporate risks (the "**Control and Risk Committee**"), and (iv) Committee for the evaluation of transactions with related parties and connected parties (the "**RPT Committee**"). The resolutions will enter into force on the Trading Date.

Remuneration Committee (*Comitato per le Remunerazioni*)

The Board of Directors, at its meeting held on November 4, 2015, appointed Elisabetta Oliveri (chairman), Salvatore Messina and Luigi Sbrozzi to the Remuneration Committee.

The Remuneration Committee's functions are advising and making proposals to the Board of Directors regarding the remuneration and incentive schemes of the directors, officers and senior management of the Group.

Specifically, this Committee:

- drafts proposals on the compensation of personnel whose the remuneration and incentivization systems are decided by the Board of Directors;
- has advisory functions for deciding the compensation criteria of all the "key personnel" as identified in the "Remuneration and incentivization policy for members of the strategic oversight, management and control bodies and personnel of the Banca Farmafactoring banking group" (*Policy di remunerazione e incentivazione a favore dei component degli Organi di Supervisione strategica, Gestione e Controlli e del personale del Gruppo Bancario Banca Farmafactoring*).

As part of this advisory role, the Committee:

- contributes to the definition of the guidelines for policies and principles on remuneration to be submitted for approval at the Shareholders' Meeting, in compliance with the provisions pursuant to Bank of Italy Circular No 285 of December 17, 2013;
- draws up proposals and/or expresses opinions to the Board of Directors on the remuneration (i) of the Chairman of the Board of Directors; (ii) of the CEO and the other directors with specific responsibilities and/or tasks (including, therefore, Committee members), including establishing performance targets related to the variable components of the remuneration of executive directors; (iii) Senior Executives (i.e. the offices that directly report to the CEO or to the Board of Directors, which contribute significantly to carrying out the Group's strategic objectives, generally through the management of relevant budgets for human and/or economic resources, in accordance with delegations and formal power of attorneys as identified by the Board of Directors); (iv) Executives (i.e. offices responsible for specific or highly specialised business units which report to the CEO or to Senior Executives, contributing to the attainment of personnel structure objectives and providing support/qualified advice to the Direction and to the rest of the organization, as identified by the Board

of Directors), that directly report to the CEO; and (v) Heads of Corporate Control Functions. Opinions and proposals are expressed on the basis of a discretionary evaluation, conducted taking into account the following parameters, *inter alia*:

- importance of the role in the corporate organization;
- achievement of specific targets previously set by the Board of Directors;
- and, for persons other than the Heads of Corporate Control Functions, the following parameters as well:
- impact on company results;
- economic results achieved by us;
- drafts non-binding opinions and proposals for the Board of Directors on the adoption (and eventual subsequent integration) of incentive plans (stock option plans, stock grant plans, etc.) and their respective objectives, and how to calculate the compensation to be paid if the employment relationship is terminated early ("**golden parachutes**") and evaluates such termination's effects on rights assigned under incentive plans based on financial instruments;
- directly oversees the correct application of the regulations relating to the remuneration of the Corporate Control Functions, in strict accord with the Board of Statutory Auditors;
- manages the preparation of documents to be submitted to the Board of Directors at meetings called to discuss matters regarding compensation, in particular preparing the remuneration report in compliance with the terms required for its presentation to the Shareholders' Meeting;
- examines the vote taken by the Shareholders' Meeting on the remuneration report prepared pursuant to Article 123—*ter* of Consolidated Financial Act and presents the analysis to the Board of Directors;
- collaborates with other internal committees on the drafting and application of company policies, in particular the Control and Risk Committee;
- ensures that the relevant company department (e.g. Human Resources, Risk Management, Compliance etc.) is involved in the development and implementation of the Remuneration Policy;
- informs the Board of Directors of the achievement or otherwise of the performance targets set out as part of the incentive schemes and the fulfilment of other conditions for remuneration;
- periodically evaluates the adequacy, overall consistency and correct application of the Remuneration Policy with reference to executive directors, senior executives, executives and Corporate Control Functions, and providing appropriate feedback to the CEO and the Board of Directors;
- monitors the execution of the incentive plans approved by the Board of Directors;
- provides feedback on the actions it takes in respect of corporate bodies to ensure that they comply with applicable regulations. Specifically, through the Chairman of the Committee or another appointed member, it submits to the Shareholders' meeting held to approve the financial statements the methods in which it carries out its functions;
- carries out other tasks that the Board of Directors decides, through special resolutions, to assign to it.

The Committee has access to company information and to the corporate functions necessary to carry out its responsibilities. Each year the Board of Directors establishes the Committee's budget for such activities, which can be increased upon Committee request. The Committee may collaborate with external or internal experts in order to carry out its functions as well as for the purpose of verifying that the remuneration and incentivization systems are consistent with the Risk Appetite Framework (the "**RAF**").

No board members may take part in meetings of the Remuneration Committee which concern their own remuneration.

The Committee is composed of three non-executive members of the Board of Directors, of which at least two are independent, and it terminates upon termination, for any reason, of the Board of Directors. At least one member of the Committee must have adequate knowledge and experience in financial matters or remuneration policies, as assessed by the Board of Directors at the time of appointment.

On May 13, 2016, the Board of Directors approved amendments to the composition of the Committee in order to ensure that our corporate governance system complied with the provisions of the Consolidated Financial Act and the Self-Regulatory Code. In particular, the Board of Directors appointed independent director Mrs. Elisabetta Oliveri (Chairman), independent director Mr. Giampaolo Zambeletti Rossi and non-executive director Mr. Luigi Sbrozzi as Committee members.

Nominating Committee (*Comitato Nomine*)

The Board of Directors, at its meetings held on November 4, 2015 and December 21, 2015 appointed, and subsequently confirmed on March 31, 2016 to the Nominating Committee Mr. Federico Fornari Luswergh (chairman), Mrs. Gabriele Michaela Schindler Aumann and Mr. Ben Carlton Langworthy.

The Nominating Committee has advisory functions and is responsible for supporting and making proposals to the Board of Directors in the following processes:

Appointment and cooptation of directors

Regarding the appointment and co-option of members of the Board of Directors, the Nominating Committee assists the Board of Directors in defining its composition, ensuring that an appropriate degree of diversification is acquired in terms of, among other things, competence, experience, gender and international standing and that this is consistent with the requirements set forth under the By-laws and the Board of Directors' rules, as well as the results of the self-assessment process set out in the relative Board of Directors' regulation (the "**Self-Assessment Regulation**") which we have adopted.

In particular, the Nominating Committee carries out an advisory and consulting role for the Board of Directors in:

- identifying the adequate qualitative and quantitative composition of the Board of Directors, respecting gender equality provisions; expressing recommendations on the correct and effective functioning of the Board of Directors, helping to draft the plan for the succession of executive directors;
- determining the maximum number of appointments to administrative or control functions allowed for directors, and ensuring compliance with the non-compete obligation pursuant to Article 2390 of the Italian Civil Code;
- verifying the correspondence between the composition of the Board of Directors and that resulting from the appointment process. In the case of co-option-that is, when a Board of Directors member terminates its office before the expiry of the mandate-the Nominating Committee gives its opinion on candidates who, according to the analysis performed by the Board of Directors in advance, are eligible to be appointed as Board of Directors members. This opinion is made available to our shareholders at the first shareholders' meeting after the co-option. If the shareholders' meeting is responsible for the appointment of the Board of Directors members (*e.g.*, natural termination of the office or resignation of the entire Board of Directors), the provisions of the Rules of the Board of Directors and the Self-Assessment Regulation shall apply.

The Nominating Committee proposes to the Board of Directors, in case of cooptation, candidates for the office of director (if necessary to replace independent directors) and provides opinions to the Board on resolutions related to the potential replacement of members of the internal committees.

Self-assessment of the Board of Directors

The Nominating Committee assists the Chairman and the Board of Directors in the self-assessment process of the Board of Directors, as provided by the Self-Assessment Regulation. The Nominating Committee also participates in the selection of any external advisors appointed to assist the Board of Directors in the self-assessment process.

The Nominating Committee also proposes to the Chairman the internal advisor for the self-assessment process (the criteria for identifying the internal or external advisor are set out in the Self-Assessment Regulation).

Verification of the requirements of professionalism, integrity and independence of the directors

In the case of co-option, the Nominating Committee verifies in advance the integrity, professionality and independence requirements of the candidates to the Board of Directors as set forth in Article 26 of the Consolidated Banking Act and the Rules of the Board of Directors.

Determination of succession plan for the top executive positions

The Nominating Committee assists the Board of Directors in the process of formalizing plans to ensure a smooth succession in the top executive positions in the event of termination of the office or any other cause, in order to ensure business continuity and avoid the economic impact deriving from bad reputation.

The Nominating Committee is also mandated to support the Control and Risk Committee in the identification of personnel responsible of our control functions whose appointment must be submitted to the Board of Directors, after consultation with the Board of Statutory Auditors.

The Nominating Committee should ensure that the decision-making process of the Board of Directors is not under the control of a single person or group of persons that could jeopardize us.

Furthermore, the Nominating Committee has access to all the information and company data necessary to perform its role, along with sufficient financial resources in order to guarantee its operative independence, as established by the Board of Directors. The Committee may also consult external experts.

The Nominating Committee is composed of three non-executive directors, appointed by the Board of Directors. The majority of the directors of the Nominating Committee must be independent in compliance with the requirements set out in the By-laws and the Rules of the Board.

The term of office of the Nominating Committee is equal to our Board of Directors' term of office; consequently, it expires upon termination of the Board of Directors' office.

Control and Risk Committee (*Comitato Controllo e Rischi*)

The Board of Directors, at its meeting held on November 4, 2015 appointed to the Control and Risk Committee Mrs. Gabriele Michaela Schindler Aumann (chairman), Mr. Salvatore Messina and Mr. Luigi Sbrozzi.

The Control and Risk Committee is an advisory body that, according to the provisions of Article 7, principle 7.P.3, letter (a) (ii) of the Self-Regulatory Code, supports, and investigates, the assessments and decisions of the Board of Directors relating to the internal audit and risk management systems and those relating to the approval of periodic financial reports.

In particular, the Control and Risk Committee:

- identifies and makes proposal to the Board of Directors for the appointment of the personnel responsible for the Corporate Control Functions together with the Nominating Committee;
- examines in advance the work programs (including the audit plan prepared by the Internal Audit Function) and the annual reports of the Corporate Control Functions addressed to the Board;
- examines regular reports, connected to the evaluation of the Internal Control System decided by the Corporate Control Functions;
- evaluates and makes proposals to the Board of Directors on compliance with their relevant principles for the Internal Control System and the organization of the Company and the Group;
- evaluates and makes proposals to the Board of Directors on the requirements that must be met by the Corporate Control Functions and on specific issues related to the identification of the main corporate risks, highlighting to the Board of Directors any weaknesses encountered and the remedies to be implemented. For this end, it evaluates the proposals of the managing director;
- monitors the autonomy, adequacy, effectiveness and efficiency of the Corporate Control Functions;

- contributes, through evaluations and opinions, to the definition of the outsourcing policy in relation to the Corporate Control Functions;
- verifies that the Corporate Control Functions complies with the principles and guidelines established by the Board of Directors, and assists in the preparation of the coordination document provided by Section II of the *Disposizioni di Vigilanza per le Banche sul Sistema dei Controlli Interni* (*Regolamento degli Organi Aziendali, delle Funzioni di Controllo e dei Flussi Informativi*);
- can request from the Corporate Control Functions verifications on specific operating areas, informing the Chairman of the Board of Statutory Auditors;
- assesses, jointly with the executive responsible for drafting corporate accounting documents, in consultation with the statutory auditor and the Board of the Statutory Auditors, the correct application of accounting standards for the preparation of financial statements and, as for groups, the consistency with the Consolidated Financial Statements;
- supports, by carrying out an adequate preliminary activity, the evaluations and decisions of the Board of Directors connected to the risk management deriving from detrimental facts, of which the Board of Directors is aware;
- contributes to determining the main corporate risks with opinions on specific issues.

With respect to the tasks relating to the management and control of risks, the Control and Risk Committee supports the Board of Directors in:

- the definition and approval of the strategic guidelines and risks governance policies. In the context of the RAF, the Control and Risk Committee evaluates and makes proposals to the Board of Directors in order to allow the latter to define and approve the risk appetite and risk tolerance in compliance with Internal Control Procedures;
- the verification of the correct implementation of the strategies, risk governance policies and RAF approved by the Board of Directors;
- the definition of the policies and assessment processes for business activities, including the periodic verification of the consistency of the profitability and risks assumed in transactions with customers, compared to the business model and the risk strategies.

Without prejudice to the powers of the Remuneration Committee, the Control and Risk Committee ensures that the incentives underlying the remuneration and incentives policy are consistent with the RAF.

For the sake of completeness, the Internal Audit Regulation, approved by the Company with effectiveness conditioned upon the starting of the Listing on the MTA, provides for the intervention of the Control and Risk Committee-by rendering a favorable opinion-in the process of appointing and revoking the Head of the Internal Audit and of approving the working plan prepared by it. Competence on both rests on the Board of Directors.

The Control and Risk Committee exchanges with the Board of Statutory Auditors any information of mutual interest and, where appropriate, cooperates to perform of their respective duties.

The Control and Risk Committee has access to relevant business information and identifies any additional information flows, other than those mentioned above, that need to be highlighted.

The Control and Risk Committee must be able to access company data and information flows in order to identify any risks, including their form and frequency.

If necessary, the Control and Risk Committee has the right to liaise directly with Compliance, Risk Management and Internal Audit Functions.

The Control and Risk Committee consists of three non-executive directors appointed by the Board of Directors. The majority of the directors of the Control and Risk Committee must be independent in compliance with the requirements set out in the By-laws and the rules of the Board of Directors. The members of the Control and Risk Committee must have the knowledge, skills and experience to fully understand and monitor the risk strategies and guidelines of the Company and the Group. In addition, at least one member of the Control and Risk Committee must have adequate experience in accounting and finance and/or risk management process. The evaluation of the above skills is carried out by the Board of Directors.

The term of office of the Control and Risk Committee is the same as the Board's term of office; consequently, it expires upon termination of the Board's office.

On May 13, 2016, the Board of Directors, subject to the admission to listing, approved the necessary amendments to the composition of the Committee in order to ensure that our corporate governance system complied with the provisions of the Financial Consolidated Act and the Self-Regulatory Code. In particular, the Board of Directors appointed independent director Mrs. Gabriele Michaela Schindler Aumann (Chairman), independent director Mr. Federico Fornari Luswergh and non-executive director Mr. Luigi Sbrozzi as Committee members. Further, on April 28, 2016, the Board of Directors appointed the CEO Mr. Massimiliano Belingheri as director responsible for overseeing the management of internal control and risks.

Committee for the evaluation of transactions with related parties and connected parties (RPT Committee)

Through resolutions of September 20, 2013 and December 11, 2015, the Board of Directors, in compliance with the applicable regulations of the Bank of Italy and the new prudential Supervisory Provisions for Banks, adopted the "Regulation for the Banca Farmafactoring banking group for identifying and approving transactions with related parties". On June 23, 2016, the Board of Directors resolved to change the name of the aforementioned regulation to "Regulation of the Banca Farmafactoring banking group for the management of transactions with parties with conflicts of interest" (the "**RPT Regulation**") and to approve further amendments necessary in order to guarantee its compliance with the provisions of the regulation adopted by Consob through Resolution No. 17221/2010.

The RPT Regulation aims at governing the risk that the impartiality and objectivity of certain key decision-making individuals may be compromised in relation to transactions in which they may be involved. This may result in potential mis-allocation of resources, exposing the Company to unnecessary risks that may be harmful to shareholders and stakeholders.

The RPT Regulation sets out, *inter alia*: (i) the perimeter of the related parties and type of transactions related thereto, (ii) the specific procedures applicable to such transactions, (iii) the safeguards adopted by us with respect to transactions with related parties, (iv) the exemptions to the procedures, the methods of updating the procedures and (vi) the guidelines to communicate internally and externally (also to the authorities) the information concerning the related parties transactions.

The RPT Regulation also requires that the Bank, in compliance with the provisions of the Bank of Italy and the Regulation adopted by Consob through Resolution No. 17221/2010, establishes a Related Party Transactions Committee (the "**RPT Committee**"), made up of three independent directors with the requirements referred to in the Self-Regulatory Code, subject to periodic renewal, and whose operation is governed by dedicated regulations.

On June 23, 2016, the Board of Directors resolved to change the name of the regulation on the operation of the RPT Committee from "Regulation of the Committee for the evaluation of transactions with connected parties" to "Regulation of the Committee for the evaluation of transactions with related parties and connected parties" (the "**RPT Committee Regulation**").

The RPT Committee carries out the following functions:

- provides opinions on the suitability of the RPT Regulation to achieve the objectives set out in (i) the Bank of Italy's Circular No. 263 of December 27, 2006 and subsequent applicable regulations on the substantial and procedural correctness and transparency of transactions carried out with "connected parties"; and (ii) the Regulation adopted through Consob Resolution No. 17221 of March 12, 2010 and subsequent applicable regulations on the substantial and procedural correctness and transparency of transactions carried out with "related parties";
- provides advice on any change to the RPT Regulation, as required under Article 7 of the RPT Committee Regulation;
- provides, at the request of the CEO, an opinion to qualify the transaction, as the case may be, as a significant transaction, a less significant transaction or falling within an exemption pursuant to Article 7.5 of the RPT Regulation. To this end, the RPT Committee receives a preliminary document, prepared by the Credit Evaluation Operational Unit if a credit evaluation is required, or by the Risk Management Function in other cases;

- is involved in the negotiation and preliminary investigation stages in respect of significant transactions and transactions for which the Shareholders' meeting is responsible. To this end, the RPT Committee has full access to information and has the right to request information and make observations to delegated bodies and parties leading the negotiations and preliminary investigations;
- prior to the decision making stages, provides non-binding majority advice on our interest in carrying out less significant transactions, as well as on the substantial expediency and correctness of related conditions, and reports to the relevant parties any shortcomings and/or inadequacies detected;
- prior to the decision making stages, and in the case of significant transactions, the RPT Committee has full access to information during the preliminary investigation and negotiation stages and expresses a unanimous opinion, working only with independent directors. If a unanimous decision cannot be reached, the opinion expressed by the RPT Committee is negative and each independent director must provide adequate reasons for their position (significant transactions on which the RPT Committee has expressed a negative or conditioned opinion are subject to authorization from the Shareholders' meeting, irrespective of whether the Board of Statutory Auditor expressed a favorable, negative or conditioned opinion in relation to the execution thereof). The RPT Committee has the right to request information and clarifications and make observations to the Corporate Bodies and the Head of the Corporate Function/subsidiary responsible for approving the transaction (pursuant to Article 3 of the RPT Committee Regulation). In the event of transactions for which the Shareholders' Meeting is responsible, pursuant to Article 8.6 of the RPT Regulation, it expresses a reasoned opinion on our interest in completing the transaction, as well as the expediency and the essential correctness of related conditions. This opinion is attached to the proposed resolution approved by the Board of Directors and is submitted to the Shareholders' meeting;
- verifies the framework resolutions prepared for standard transactions, in accordance with Article 7.3 of the RPT Regulation;
- monitors ordinary transactions which have been completed, and in this regard receives annual information *ex post*, in accordance with Article 7.5.1 of the RPT Regulation; and
- provides the CEO and/or the party granted with authority to carry out specific transactions with a prior opinion on any proposal to be submitted to the Board of Directors to apply the procedures described in Articles 8.3, 8.4 and 8.5 of the RPT Regulation to transactions with "related parties" and "connected parties" carried out independently, from time to time, by subsidiaries.

In addition, the RPT Committee carries out an evaluatory, supporting and advisory role with regards to organizing and implementing internal policies on the management of risk towards related parties and connected persons, as well as ensuring compliance with the Company's strategic and management goals.

The intervention of the RPT Committee is not required for transactions set out in Article 7.5 of the RPT Regulation.

Any independent director who is an RPT Committee member and who is an "affiliated entity" or a "related party", or has an interest pursuant to Article 2391 of the Civil Code, in a specific transaction must not participate in the activities of the RPT Committee in respect of that transaction.

In the case of (i) less significant transactions, where there are not at least two independent directors who are not related and/or who do not qualify as "connected parties", or (ii) significant transactions, where there are not at least three independent directors who are not related and/or who do not qualify as "connected parties", the functions of the RPT Committee are carried out by the Board of Statutory Auditors, who may be assisted by an independent expert, in accordance with the quorum requirements to pass specific resolutions set out in Article 8.4.2, paragraph 6 of the RPT Regulation (without prejudice that, for the transactions falling within the scope of Consob Regulation No. 11721/2010, spending limit, where applicable, shall be referred to each individual transaction if it qualifies as "minor relevance" transactions, whereas this limit does not apply, in any event, to "major relevance" transactions).

The RPT Committee has the right to access any information required by it to carry out its functions. To this end, the Committee should be provided, through the Corporate Affairs Office, with full and adequate information on the various aspects of the transaction to be approved, usually at least four days prior to the date on which the RPT Committee is required to provide its opinion. If the conditions of the transaction are "equivalent to market conditions or standard", the documents prepared should contain objective proof, in compliance with Article 8.4.1, paragraph 2 of the RPT Regulation.

If the RPT Committee has expressed a negative opinion on a 'transaction of greater importance' of the Bank, any related documentation, including verbal agreements from meetings, must be sent to the Board of Statutory Auditors, which expresses in turn a non-binding opinion, with both opinions submitted to the Shareholders' for approval. All documentation prepared must also be sent to the Board of Statutory Auditors in the case of (i) less significant transactions, when the Committee's approval has not involved at least two independent directors that do not qualify as 'related parties' or 'connected persons'; (ii) transactions of greater importance, when the Committee's approval has not involved at least three independent directors that do not qualify as 'related parties' or 'connected persons', as set out by Article 8.4.2, paragraph 6 of the RPT Regulation.The RPT Committee is composed of three independent directors, who hold office until the term set out by the Board of Directors, but which expires in any event upon termination of the Board of Directors' term.

On May 13, 2016, the Board of Directors, subject to the admission to listing, resolved to approve the necessary amendments to the composition of the RPT Committee in order to ensure that our corporate governance system complied with the provisions of the Consolidated Financial Act and the Self-Regulatory Code. In particular, the Board of Directors appointed independent directors Giampaolo Zambeletti Rossi (Chairman), Elisabetta Oliveri and Gabriele Michaela Schindler Aumann to the Committee.

Compliance with corporate governance regulations

As of the date of this Offering Circular, we are fully compliant the provisions on corporate governance contained in the Consolidated Financial Act and in Bank of Italy Circular No. 285 of December 17, 2013.

On December 5, 2016, our Shareholders' Meeting resolved to adopt the by-laws that will come into force from the Trading Date. These Articles of Association conform to Bank of Italy Circular No. 285 of December 17, 2013 and to the laws and regulations applicable to listed companies, as well as to the principles and recommendations in the Self-Regulatory Code and the provisions of the Stock Exchange Regulation for the MTA. Therefore, we are fully compliant with all corporate governance regulations.

Specifically, the by-laws that will come into force from the Trading Date of the shares govern the composition of bodies (including, for example, the operation of internal board committees provided under the new regulations which we approved and the effectiveness of which is subject to the listing taking place and the appointment of a manager for the drafting of the corporate financial documents entrusted with the powers provided under article 154—*bis* of the Consolidated Financial Act) and the appointment and removal of members in a clear and transparent manner. They require that the appointment of the Board of Statutory Auditors is made in compliance with applicable laws and regulations and, pursuant to Article 148 of the Consolidated Financial Act, based on "list voting", with the Chairman of the Board of Statutory Auditors being a standing auditor chosen from the minority list presented who is not in any way connected, directly or indirectly, to anyone who has submitted or voted for the list which came first in terms of number of votes (the "majority list");

In compliance with the recommendations set out in the Self-Regulatory Code and in the Consolidated Financial Act and Bank of Italy Circular No. 285 of December 17, 2013:

- we have a Board of Directors consisting of 10 directors, one of whom, namely the Chairman, meets the independence requirements pursuant to Article 148-*ter* of the Consolidated Financial Act, and four of whom meet the independence requirements pursuant to Article 148-*ter* of the Consolidated Financial Act and Article 3 of the Self-Regulatory Code. The Chairman performs a non-executive role. Therefore, as of the date of this Offering Circular, the Board's composition conforms to the Self-Regulatory Code and to Bank of Italy Circular No 285 of December 17, 2013;
- in addition to the Committee for the evaluation of transactions with related parties and connected parties, the establishment of which is required by the Regulation adopted through Consob Resolution 17221/2010, the Board of Directors set up three internal Board committees as required by the Self-Regulatory Code and by Bank of Italy Circular No. 285 of December 17, 2013, composed entirely of non-executive directors, the majority of whom are independent. A chairman selected by the independent members coordinates the committee's work;
- through the resolution of the Shareholders' Meeting of April 11, 2016, in compliance with the recommendations of Article C.3 of the Self-Regulatory Code and the provisions contained in the by-laws that will enter into force on the start date of trading of the shares on the MTA, we adopted a regulation for the orderly and effective conduct of Shareholders' Meetings;

- through the resolution of the Board of Directors of April 11, 2016, we appointed Mr. Walter Landi, as information officer responsible for the relations with Borsa Italiana;
- through the resolution of the Board of Directors of April 28, 2016, pursuant to Article 154—*bis* of the Consolidated Financial Act and in compliance with the by-laws that will enter into force on the start date of trading of the shares on the MTA, we appointed Dr. Carlo Maurizio Zanni as the director responsible for preparing the corporate accounting documents, effective as of the start date of trading of our ordinary shares on the MTA;
- through the resolution of the Board of Directors on April 28, 2016, we appointed our CEO Mr. Massimiliano Belingheri, as director responsible for overseeing the management of internal control and risks, entering into force from the Trading Date;
- through the resolution of the Board of Directors on July 8, 2016, Mrs. Laura Spotorno was appointed as investor relator, entering into force from the Trading Date;
- through resolutions of the Board of Directors of May 13 and July 28, 2016 a procedure was adopted to manage information disclosure requirements under internal dealing regulations. This was adopted pursuant to Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014 and Article 114, paragraph 7 of the Consolidated Financial Act and governs the disclosure obligations to the public and of Consob with regards to transactions involving financial instruments issued by us made by "significant parties" and "closely related persons" as defined in the Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014;
- through resolutions of the Board of Directors of May 13 and July 28, 2016 a procedure was adopted to manage and process confidential information and the disclosure of documents and information concerning us and our subsidiaries, in particular inside information, as defined under Article 181 of the Consolidated Act and Article 7 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014;
- through resolutions of the Board of Directors of May 13 and July 28, 2016 a procedure was also adopted to manage and update the register of persons with access to inside information of us and/or the companies of the Group. This procedure is in compliance with applicable law in force from time to time governing access to inside information, contained in Article 115-*bis* of the Consolidated Financial Act and Article 18 of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of April 16, 2014, which requires listed issuers to establish and manage a register of persons who have access to our inside information and/or Group companies through their work or professional activities, the functions that they perform or in their capacity as shareholders of the Company or Group companies; and
- through the resolution of the Board of Directors of July 28, 2016, pursuant to Article 152—*bis* of the Issuers' Regulation, the head of the Compliance Function was appointed as the party responsible for keeping, managing and updating the register of persons who have access to inside information on behalf of the Company and Group companies.

Under Bank of Italy Circular No. 285 of December 17, 2013, the Board of Directors also adopted the "Regulation on the process of self-evaluation of the Board of Directors", governing the evaluation process that the Board of Directors carries out, at least once a year, on committees. The Board of Statutory Auditors is also subject to a periodic evaluation based on criteria and methods consistent with its characteristics.

Board of Statutory Auditors

The Board of Statutory Auditors is composed of three acting members and two substitutes who were appointed by the ordinary shareholders' meeting on November 4, 2015 and integrated on March 31, 2016. Certain current members of the Board of Statutory Auditors have previously served as statutory auditors of the Company. In particular: (i) Marco Lori was appointed for the first time as acting auditor of the Company on March 25, 2015; and (ii) Patrizia Paleologo Oriundi was appointed for the first time as acting auditor of the Company on February 16, 2016, replacing the resigning auditor Professor Lorenzo Pozza.

The current Board of Statutory Auditors will remain in office until the date of the ordinary shareholders' meeting convened to approve the financial statements as of and for the year ended December 31, 2017.

The following table sets forth the current members of our Board of Statutory Auditors as of the date of this Offering Circular.

Name	Title	Date of birth
Marco Lori	Chairman of the Board of Statutory Auditors	August 31, 1956
Patrizia Paleologo Oriundi	Acting auditor	January 24, 1957
Sabrina Pugliese(1)	Acting auditor	October 6, 1969
Alessandro Cavallaro	Alternate auditor	January 6, 1974
Giancarlo De Marchi	Alternate auditor	May 13, 1950

(1) Ms. Pugliese replaces—as most senior acting auditor—Mr. Francesco Tabone, who will resign from his former position as Statutory Auditor and Chairman of the Board of Statutory Auditors with effectiveness from the Trading Date.

The business address of each member of our Board of Statutory Auditors is Via Domenichino, No. 5, Milan (MI) 20149, Italy.

As of the Trading Date, all of the members of the Board of Statutory Auditors will fulfil the professional and integrity requirements set out by Article 148 paragraph 3 of the Consolidated Financial Act, the Self-Regulatory Code, and the *Regolamento Attuativo* which entered in force with Decree No. 162/2000 ("**Decree No. 162/2000**") of the Italian Minister of Justice (*Ministero di Grazia e Giustizia*).

None of the members of the Board of Statutory Auditors has held positions, or has carried out, on a regular basis, activities or services during the past three years, directly or indirectly, in our favor or in favor of persons who control us.

The current members of our Board of Statutory Auditors fulfilled the independence requirements also pursuant to the Self-Regulatory Code.

In addition, the members of the Board of Statutory Auditors of the Company have not held office for the last three financial years and they have not engaged, are not presently engaging and will not engage any activity or provide any services-directly or indirectly through third companies/ professional firms-to the Company, to the companies of the Company Group or to the current shareholders (direct and indirect) of the Company.

Patrizia Paleologo has held office in FF Holding S.p.A (the Company's shareholder from November 4, 2015 until December 2016) according to terms and conditions specified in the table below. However, we do not believe that this fact adversely affects in any material respect the independence requirements pursuant to the Self-Regulatory Code applicable to Ms. Paleologo.

Auditor-person in charge of the engagement.	Company name /direct or indirect shareholder conferor of the office	Nature of the office	Remuneration (per year)	Duration
Patrizia Paleologo Oriundi	FF Holding S.p.A	Acting Auditor	2013: €66,087 2014: €31,928	From 2006 to 13 October 2014

Finally, in the recent past the members of the Board of Statutory Auditors had no self-employment and/or financial or professional relations with the Company, the companies of the Company Group or the current shareholders (direct or indirect) of the Company (directly and indirectly including through the professional firm in which they are partners or through the partners of the firm), with the exception of Alessandro

Cavallaro, as described in the table below. We do not believe that this fact adversely affects in a material way his independence requirements pursuant to the Self-Regulatory Code and applicable law.

Auditor	Person in charge of the engagement.	Company name/ direct or indirect shareholder conferor of the office	Nature of the relation	Remuneration	Duration
Alessandro Cavallaro . .	Partners CPA-Professor	Centerbridge partners L.P	Assistance in the acquisition transaction of Banca Farmafactoring S.p.A	Flat-rate €100,000	From December 2014 to September/ October 2015

Set out below are brief biographies of each of the members of the Board of Statutory Auditors.

Marco Lori. Mr. Lori graduated with a degree in Business Economics from Bocconi University in Milan in 1982. Since 1995, he has been a member of the Order of Chartered Accountants (*Ordine dei Dottori Commercialisti*) and the Register of Auditors (*Registro dei Revisori Contabili*). Since 1982, he has worked as an accountant (*dottore commercialista*) at Lori & Associati in various capacities as member of the Board of Statutory Auditors. He is also head of the Compliance, Internal Audit and/or Anti-Money Laundering departments for financial intermediaries (closed-end real estate and equity investor funds). He is chairman and member of the supervisory board (*Organismo di Vigilanza*) under Italian Legislative Decree 231/2001 for several financial intermediaries and listed companies. He also acts as an interface for institutional relations with Consob and Borsa Italiana S.p.A. on behalf of listed companies.

Patrizia Paleologo Oriundi. Mrs. Paleologo Oriundi graduated with a degree in Business Economics from Bocconi University in Milan in 1980. She has been a member of the Order of Chartered Accountants (*Ordine dei Dottori Commercialisti di Milano*) since 1983. Since 1992, she has been a member of the Register of Auditors (*Registro dei Revisori Legali*) and an auditor since 1995. From 1980 to 1986, she worked at Studio Legale Tributario Luigi Biscozzi-Augusto Fantozzi in Milan. From 1987 to 1997, she worked at Studio Associato Palumbo in Milan. Since 1998 Mrs. Paleologo Oriundi has been the president of the professional association "Studio TFP Associati-Studio Tributario", advising customers, including law firms and accounting firms. She is a partner of AODV231 Association and works on the draft of position papers about anti-money laundering. For over 30 years she has been a chairman of various boards of statutory auditors, acting auditor or member of the supervisory boards, pursuant to the Italian Legislative Decree 231/2001, for several companies operating in the commercial, financial and insurance sectors.

Sabrina Pugliese. In 1993, Sabrina Pugliese graduated with a Law degree from the University of LUISS Guido Carli in Rome. Registered as a member of the Milan Bar Association and the International Bar Association, she began her professional career working for law firms in Rome, Bologna and London, before taking up a position at KStudio Associato in Milan in 1996. She has gained considerable expertise in M&A after working on numerous transactions, both in Italy and abroad, over a number of years, while she has also worked with private equity funds, manufacturing and finance companies on various mergers and acquisitions. She has also had significant experience as legal counsel for companies in financial difficulty and international commercial law. Sabrina Pugliese is a representative for the European Commission in the capacity of a 'Monitoring and Divestiture Trustee' and has a number of responsibilities outside of our Board of Statutory Auditors (among which she is board member for Aitec—*Associazione Italiana Tecnico Economica Cemento*). As a founding member of KPMG Legal, she is the national Head of M&A as well as Head of Legal Affairs for the Japanese and Chinese desk.

Alessandro Cavallaro. In 1997, Mr. Cavallaro graduated *magna cum laude* with a degree in Business Administration from Bocconi University in Milan, where he has been visiting professor in the accounting department since 2005. From 1997 to 1999, he worked for Arthur Andersen and from 1999 to 2002, for McKinsey & Company, Inc. From 2002 to 2006 he worked at Studio Provasoli. Since 2006, Mr. Cavallaro has been senior manager at Partners CPA S.p.A. Currently, he is also chairman of the Board of Statutory Auditors, active or alternate auditor in several companies operating in the commercial, industrial, financial and insurance sectors.

Giancarlo De Marchi. In 1974, Mr. De Marchi graduated *magna cum laude* with a degree in Economics from Bocconi University. In 1975, he started his professional career as a staff auditor at Arthur Andersen in Milan. In 1986, he was promoted to partner. Since 2009, he has been an independent professional, working as an associate at Studio TFP Associati-Studio Tributario on various matters including accounting, M&A operations, expert evaluations and arbitration. Additionally, he has held a number of other positions in various companies including member of the supervisory board and supervisor.

None of the members of the Board of Statutory Auditors in office as of the date of this Offering Circular is related to any of the other members of our Board of Directors, our Board of Statutory Auditors or our key officers.

The following table sets forth the companies for which the members of the Board of Statutory Auditors: (i) currently or have previously served as a members of an administrative, management or supervisory body, or (ii) have been shareholders during the past five years, along with an indication of their status or their position as of the date of this Offering Circular.

Name	Company	Office	Status as of the date of the Offering Circular
Marco Lori	Banca Farmafactoring S.p.A. (former Farmafactoring S.p.A.)	Auditor	Ongoing
	Augustum Opus SIM S.p.A.	Chairman of the Board of Statutory Auditors	Ongoing
	Azimut Financial Insurances S.p.A.	Chairman of the Board of Statutory Auditors	Ongoing
	Cofircont Compagnia Fiduciaria S.r.l.	Director	Ongoing
	COIMA RES S.p.A.	Auditor	Ongoing
	Diners Club International S.p.A.	Auditor	Ongoing
	Futurimpresa SGR	Auditor	Ongoing
	Professional Audit Group S.r.l.	Chairman of the Board of Directors	Ongoing
	Programma 101 S.p.A.	Auditor	Ongoing
	Rohm and Haas Italia S.r.l.	Alternate Auditor	Ongoing
	S.P.L.I.A. S.p.A.	Alternate Auditor	Ongoing
	Global Selection SGR S.p.A.	Auditor	Ongoing
	Azimut Capital Management SGR S.p.A	Chairman of the Board of Statutory Auditors	Ceased
	Azimut Consulenza SIM S.p.A	Chairman of the Board of Statutory Auditors	Ceased
	CGM Italia Sgr S.p.A	Chairman of the Board of Statutory Auditors	Ceased
	Eurofileading Fid. S.p.A	Auditor	Ongoing
	Altachiara Italia S.r.l.	Chairman of the Board of Statutory Auditors	Ceased
	Analysis S.p.A.	Chairman of the Board of Statutory Auditors	Ceased
	Apogeo Consulting SIM S.p.A.	Chairman of the Board of Statutory Auditors	Ceased

Name	Company	Office	Status as of the date of the Offering Circular
	AZ Investimenti SIM S.p.A.	Chairman of the Board of Statutory Auditors	Ceased
	Azimut S.G.R. S.p.A.	Chairman of the Board of Statutory Auditors	Ceased
	CERESIO SIM S.p.A.	Auditor	Ceased
	I.M.I.R Investimenti Mobiliari Immobiliari S.r.l.	Sole Director	Ceased
	IMMED S.r.l.	Chairman of the Board of Statutory Auditors	Ceased
	MIRE SGR S.p.A.	Auditor	Ceased
	MISAR S.r.l.	Alternate Auditor	Ceased
	Nexenty Advisory S.r.l.	Chairman of the Board of Statutory Auditors	Ceased
	Oceanis S.r.l.	Chairman of the Board of Statutory Auditors	Ceased
	Sprea Holding S.p.A.	Alternate Auditor	Ceased
	Sprea International S.r.l.	Alternate Auditor	Ceased
	The Passions Factory Finanziaria S.r.l.	Chairman of the Board of Statutory Auditors	Ceased
	Value LAB S.p.A.	Alternate Auditor	Ceased
	ZERO S.G.R: S.p.A.	Chairman of the Board	Ceased
Patrizia Paleologo Oriundi .	Banca Farmafactoring S.p.A. (former Farmafactoring S.p.A.)	Auditor	Ongoing
	Adespan S.r.l.	Alternate Auditor	Ongoing
	Autogrill S.p.A.	Alternate Auditor	Ongoing
	Quisi S.N.C. Di Patrizia Paleologo & C	Managing Partner	Ongoing
	Bnp Paribas Cardif Vita.	Alternate Auditor	Ongoing
	Avery Dennison Italia S.r.l.	Alternate Auditor	Ongoing
	Carlo Gavazzi Automation S.p.A.	Alternate Auditor	Ongoing
	Carlo Gavazzi Controls S.p.A.	Alternate Auditor	Ongoing
	Carlo Gavazzi Logistics S.p.A.	Alternate Auditor	Ongoing
	Carlo Gavazzi S.p.A.	Alternate Auditor	Ongoing
	CGT Logistica Sistemi S.p.A.	Alternate Auditor	Ongoing
	Chiara Assicurazioni S.p.A.	Auditor	Ongoing
	Close Milano Up S.p.A.	Chairman of the Board of Statutory Auditors	Ongoing
	Esprinet S.p.A.	Auditor	Ongoing
	Europa Benefits S.r.l.	Alternate Auditor	Ongoing
	Helvetia Italia Assicurazioni S.p.A.	Chairman of the Board of Statutory Auditors	Ongoing
	Helvetia Vita Assicurazioni (former Chiara Vita Assicurazioni S.p.A.)S.p.A.	Chairman of the Board of Statutory Auditors	Ongoing
	Icim S.p.A.	Auditor	Ongoing
	Immobiliare Pierluigi S.p.A.	Alternate Auditor	Ongoing

Name	Company	Office	Status as of the date of the Offering Circular
	Mediapason S.p.A.	Alternate Auditor	Ongoing
	Recordati Industria Chimica E Farmaceutica S.p.A.	Alternate Auditor	Ongoing
	Simoro S.r.l.	Sole Auditor	Ongoing
	Supercolori S.p.A.	Alternate Auditor	Ongoing
	Virgin Active Italia S.p.A.	Auditor	Ongoing
	Gesiass S.c.a.r.l.	Auditor	Ongoing
	Engineering-Ingegneria Informatica S.p.A		
	World Duty Free S.p.A.	Auditor	Ongoing
	Pomini R&P S.r.l	Alternate Auditor	Ceased
	Adespan S.r.l.	Auditor	Ceased
	Avery Dennison Italia S.r.l.	Auditor	Ceased
	Banca Farmafactoring S.p.A. (former Farmafactoring S.p.A.)	Alternate Auditor	Ceased
	Bel Italia S.p.A	Auditor	Ceased
	Dekra Claims Services Italia S.r.l.	Auditor	Ceased
	F2A S.r.l.	Alternate Auditor	Ceased
	F&B S.p.A. in liquidation	Alternate Auditor	Ceased
	FF Holding S.p.A.	Auditor	Ceased
	Focus Milano 1 S.r.l. in liquidation	Liquidator	Ceased
	Helvetia Vita S.p.A.	Chairman of the Board of Statutory Auditors	Ceased
	Immobiliare Dama S.r.l. in liquidation	Director	Ceased
	G.A. International S.p.A.	Alternate Auditor	Ceased
	Picard I Surgelati S.p.A. Con Socio Unico	Alternate Auditor	Ceased
	Agility Logistic S.r.l.	Alternate Auditor	Ceased
	Alberto Biani S.r.l.	Auditor	Ceased
	Alberto Biani S.r.l.	Alternate Auditor	Ceased
	Apsa S.r.l.	Chairman of the Board of Statutory Auditors	Ceased
	Nuova Baim S.r.l.	Auditor	Ceased
	Oma S.r.l.	Alternate Auditor	Ceased
	Serrature Meroni	Alternate Auditor	Ceased
	Siolo Nuova S.p.A.	Chairman of the Board of Statutory Auditors	Ceased
	Spektra S.r.l.	Alternate Auditor	Ceased
	Zurich Life And Pension	Auditor	Ceased
	Zurich Investments Life S.p.A.	Auditor	Ceased
	Zurich Life Insurance Italia S.p.A.	Auditor	Ceased
	Zurich Consortium S.C.A.R.L.	Auditor	Ceased
	Zuritel S.p.A.	Auditor	Ceased
	Wolford Italia S.r.l.	Auditor	Ceased
	Maver S.r.l.	Alternate Auditor	Ceased
	Satac S.p.A.	Auditor	Ceased
	Panem Italia S.p.A.	Alternate Auditor	Ceased

Name	Company	Office	Status as of the date of the Offering Circular
	Panem Italia S.p.A.	Chairman of the Board of Statutory Auditors	Ceased
Giancarlo De Marchi	Banca Farmafactoring S.p.A.	Alternate Auditor	Ongoing
	F.B. Hydraolic S.r.l.	Chairman of the Board of Statutory Auditors	Ongoing
	SIRA Industrie S.p.A.	Auditor	Ongoing
	Europa Benefits S.r.l.	Alternate Auditor	Ongoing
	Virgin Active Italia S.p.A.	Alternate Auditor	Ongoing
	Hydro Holding S.p.A.	Chairman of the Board of Statutory Auditors	Ongoing
	F.B. Holding S.p.A.	Chairman of the Board of Statutory Auditors	Ongoing
	Turbocoating S.p.A.	Alternate Auditor	Ongoing
	Tieffe S.p.A.	Chairman of the Board of Statutory Auditors	Ongoing
	Sanlorenzo S.p.A.	Auditor	Ongoing
	Marelli motori S.p.A.	Auditor	Ceased
	Bel Italia S.p.A.	Alternate Auditor	Ceased
	Dekra Claim Services Italia S.r.l.	Alternate Auditor	Ceased
	Tieffe Holding S.p.A.	Chairman of the Board of Statutory Auditors	Ceased
	Ansaldo Energia	Auditor	Ceased
	Taranto Container Terminal S.p.A. in liquidation	Auditor	Ceased
	Avery Dennison Italia S.r.l.	Alternate Auditor	Ceased
	Walford Italia S.r.l.	Alternate Auditor	Ceased
	Limoni S.p.A.	Director	Ceased
	Adespan S.r.l.	Alternate Auditor	Ceased
	G.A. International S.p.A.	Alternate Auditor	Ceased
	Comecer S.p.A.	Chairman of the Board of Statutory Auditors	Ceased
	Banca del Mezzogiorno-MCC S.p.A.	Auditor	Ceased
	Avery Tico S.r.l.	Alternate Auditor	Ceased
Alessandro Cavallaro	Banca Farmafactoring S.p.A. (former Farmafactoring S.p.A.)	Alternate Auditor	Ongoing
	Allianz Subalpina Holding S.p.A.	Chairman of the Board of Statutory Auditors	Ongoing
	Allianz S.p.A.	Auditor	Ongoing
	Allianz Bank Financial Advisors S.p.A.	Auditor	Ongoing
	Intermediass S.r.l.	Auditor	Ongoing
	Nonino S.p.A.	Alternate Auditor	Ongoing
	Nonino Distillatori S.p.A.	Alternate Auditor	Ongoing
	Ennefin S.p.A.	Alternate Auditor	Ongoing
	Allianz Telematic S.p.A.	Auditor	Ongoing
	Borgo San Felice S.r.l.	Alternate Auditor	Ongoing
	Società Agricola San Felice S.p.A.	Alternate Auditor	Ongoing

Name	Company	Office	Status as of the date of the Offering Circular
	Allianz Investment Management S.p.A.	Auditor	Ceased
	Charme Capital Partners Sgr S.p.A.	Auditor	Ceased
	Fondo Strategico Italiano S.p.A.	Alternate Auditor	Ceased
Sabrina Pugliese	CRC Rinascente S.p.A.	Chairman of the Board of Statutory Auditors	Ongoing
	Ecosuntek S.p.A.	Statutory Auditor	Ongoing
	International Sports Capital S.p.A.	Statutory Auditor	Ongoing
	La Rinascente S.p.A.	Chairman of the Board of Statutory Auditors	Ongoing
	Maisons du Monde Italie S.p.A.	Statutory Auditor	Ongoing
	Metal Fin S.p.A.	Statutory Auditor	Ongoing
	Moleskine S.p.A.	Temporary Statutory Auditor	Ongoing
	Casio Italia Holdings S.r.l.	Statutory Auditor	Ceased
	Dental Franchising S.r.l.	Statutory Auditor	Ceased
	Italatte S.r.l.	Statutory Auditor	Ceased
	Simem Italia S.p.A.	Statutory Auditor	Ceased
	Banco Bilba Vizcaya Argentaria S.A.	Member of the Supervisory Board	Ceased

Name	Company	% Participation	Status as of the date of the Offering Circular
Marco Lori	PROFESSIONAL AUDIT GROUP S.r.l.	31.25%	Ongoing
	COFIRCONT-Compagnia Fiduciaria S.r.l.	3.5%	Ongoing
Patrizia Paleologo Oriundi	QUISI Sn.c. di Patrizia Paleologo & c.	90%	Ongoing
Sabrina Pugliese	KPMG Advisory S.p.A.	0.13%	Ongoing
	Società Italiana Klynveld Peat Marwick Goederler S.r.l.	0.56%	Ongoing
	Ciessea S.p.A.	1.15%	Ongoing

To the best of our knowledge in the last five years, none of the members of our Board of Statutory Auditors, as of the date of this Offering Circular, has been: (i) convicted in relation to fraudulent offenses, (ii) a member of an administrative, management or supervisory body or a senior manager of a company in bankruptcy, receivership or liquidation, (iii) the subject of an official public investigation and/or sanctions by statutory or regulatory authorities, or (iv) removed or disqualified by a court from an administrative, management or supervisory body of the Company or from acting in the management of another company, except for Statutory Auditor Mr. Marco Lori. Mr. Marco Lori is currently subject to disciplinary proceedings started by CONSOB in April 2016 relating to activities conducted as Statutory Auditor for a financial intermediary different from us. Specifically, the dispute concerns alleged violations regarding investments, portfolio management and the adequacy of compliance controls. These disciplinary proceedings are still in the preliminary stages, and Consob has not sanctioned the Mr. Lori or the financial intermediary.

Findings and requests for intervention by our Board of Statutory Auditors

Our Board of Statutory Auditors, in carrying out its duties, formulates findings or requests for intervention regarding improvement initiatives. Set forth below are select examples of realignment/improvement initiatives recently implemented or planned on the basis of recommendations of the Board of Statutory Auditors.

- We have prepared a set of written policies regarding the management of financial transactions, particularly structured finance transactions. The policy includes two phases: (i) a pre-investigation phase, which consists of identifying the counter-party and identifying the partners which put forward possible structuring suggestions for the transaction, and (ii) an investigation phase, which ends with the conclusion of the funding agreement.
- We have introduced a majority appointment mechanism for the external expert which helps evaluate decisions of the RPT Committee.
- Key internal structures and control functions provide quarterly reports on their activities to the Board of Statutory Auditors since 2014.
- On July 28, 2016, our Board of Directors appointed Mr. Gustato, as new head of our Compliance and AML organizational unit, whose appointment was effective from August 31, 2016.

Principal Executives

The following table sets forth our Principal Executives as of the date of this Offering Circular.

Name	Title	Date of birth
Massimiliano Belingheri	Chief Executive Officer	October 30, 1974
Roberto Castiglioni	VP Factoring	March 4, 1959
Luciano Seminara	VP Finance & Credit	June 12, 1959
Carlo Maurizio Zanni	VP Planning Administration & Control Dep.	April 13, 1960
David Calvet Canut	General Manager Farmafactoring España	April 17, 1968

Set out below are brief biographies of the members of our Principal Executives.

Massimiliano Belingheri. See "—Board of Directors".

Roberto Castiglioni Mr. Castiglioni graduated with a degree in Law from the Università Statale in Milan in 1988. He subsequently achieved the title of Lawyer. In 1985, he started his career in the Legal Department and credit secretarial office (*Segreteria Fidi*) of Medio factoring S.p.A. He has been working at the Company since 1987 as the head of the legal department and credit secretarial office. From 2000 to 2011, he served as the chief operating officer. Since February 2011, he has served as Vice President of Operations he is currently Vice President Factoring. He currently manages commercial development activities.

Luciano Seminara. Mr. Seminara studied Economics at Università Cattolica del Sacro Cuore in Milan. He began his career in 1979 at Atlas Copco Italia S.p.A., working in several offices of the financial division, where he became Treasury and Credit Manager. In the meantime, from 1979 to 1984, he studied Economics and Banking at the Università Cattolica del Sacro Cuore in Milan. In 1990, Mr. Seminara joined Farmafactoring S.p.A., working as Treasury and Finance Manager and in 2004, he was promoted to Finance Manager (Dirigente-*Direttore Finanziario*). In 2009, he became Finance Manager (and Business Unit *Aziende* (*Direttore Finanzia e Business Unit Aziende*), and also managed business development towards customers. Mr. Seminara is currently Vice President of our Finance and Credit Department manages the Company's financial stability and liquidity. He leads our Finance Department. Since 2011, he has served as Vice President Finance.

Carlo Maurizio Zanni. Mr. Zanni graduated with a degree in Economics from Bocconi University in Milan in 1988. In 1987, he began his career as a registered auditor at Coopers & Lybrand (now PwC). From 1990 to 1999, Mr. Zanni worked as Supervisor-manager at Mazars. From 1999 to 2002, he worked as the CFO at BQS. In 2002 he joined the Company as Chief Administrative Officer. In 2007, Mr. Zanni was appointed as manager of management and control system (*Direttore Amministrazione e controllo di gestione*). In 2011, he became Vice President of the Company's management and control department. In 2010, he was involved in the startup of Farmafactoring España S.A. and since 2011 he has been a member of the board of directors of Farmafactoring España S.A. Since 2013, Mr. Zanni has been the chairman of the Board of Auditors and of the Supervisory Board of Assifact (*Associazione per il factoring*). Since July 2016 he has been a member of the Supervisory Board of the polish subsidiary Magellan S.A., in which he holds the position of Vice President. He is currently Vice President for *Pianificazione, Amministrazione e Controllo*.

David Calvet Canut. Mr. Calvet Canut graduated with a degree in Management (financial-banking) from the Business School ESADE, where he also completed an MBA in 1991. Additionally, he earned a degree in Business Administration from UPC in Barcelona. From 2003 to 2004, Mr. Calvet Canut studied Corporate Finance at ESADE, and from 2008 to 2009 he attended a Senior Management Program (PADE) at IESE. Mr. Calvet Canut was COO, CFO and CEO of several multinational companies such as National Starch & Chemical, Siemens Healthcare and Olympus, both in Spain and Portugal, and also with responsibility over EMEA South until 2010. He was a teaching assistant at ESADE from 2002 to 2004. He was the co-author of "*Las reclamaciones de cantidad en el ambito de la Contratación Pública*", published in 2006, which works as a reference manual for amounts' claiming processes against the Public Administration. In 2010, Mr. Calvet Canut was appointed as general manager (*Direttore Generale*) and in 2011, he became a member of the board of directors of Farmafactoring España. In 2015 he was appointed as branch manager of the Company's Spanish branch. He is currently General Manager of Farmafactoring España.

None of the Principal Executives in office as of the date of this Offering Circular is related to any of the other members of our Board of Directors, to the members of our Board of Statutory Auditors or our key officers.

The following table sets forth the companies for which the members of the Board of Statutory Auditors: (i) currently or have previously served as a member of an administrative, management or supervisory body, or (ii) have been shareholders during the past five years, along with an indication of their status or their position as of the date of this Offering Circular.

Name	Company	Office	Status as of the date of the Offering Circular
Massimiliano Belingheri(1)	—	—	—
Carlo Maurizio Zanni	Farmafactoring España S.A.	Director	Ongoing
	Magellan SA	Member of the Supervisory Board	Ongoing
David Calvet Canut	Farmafactoring España S.A.	Director and General Manager	Ongoing

(1) See "*—Board of Directors*" above.

Pursuant to the Investment Agreement, the Principal Executives participate in the share capital of BFF Luxembourg, with all of the shareholdings registered in trust in the name of Cordusio Fiduciaria; the shareholdings represent 3.161% of the share capital of BFF Luxembourg. See "*Conflicts of Interest—Investment agreement between the Selling Shareholder, BFF Canada and the Managers*" and "*Principal and Selling Shareholder—Investment agreement between the Selling Shareholder, BFF Canada and the Managers*".

To the best of our knowledge in the last five years, none of the Principal Executives, as of the date of this Offering Circular, has been: (i) convicted in relation to fraudulent offenses, (ii) a member of an administrative, management or supervisory body or a senior manager of a company in bankruptcy, receivership or liquidation, (iii) the subject of an official public investigation and/or sanctions by statutory or regulatory authorities, or (iv) removed or disqualified by a court from an administrative, management or supervisory body of the Company or from acting in the management of another company.

Conflicts of Interest

As of the date of this Offering Circular, none of the members of our Board of Directors or Board of Statutory Auditors or our Principal Executives holds personal interests, directly or indirectly, in the Company's share capital.

At a Group level, however, our Chief Executive Officer, Mr. Massimiliano Belingheri, holds a shareholding of 2.28% in the share capital of BFF Luxembourg.

Furthermore, Mr. Luigi Sbrozzi is also a director of BFF Luxembourg. Mr. Carlton Langworthy is also a director of BFF Lux Holdings, which is our indirect shareholder. Mr. Marco Rabuffi, holds an indirect shareholding equal to 0.45%, towards Unione Fiduciaria S.p.A., in our share capital.

Our Chief Executive Officer and each of our Principal Executives have entered into non-compete agreements with us for a period varying from 2 (two) to 3 (three) years from the termination of their office or employment in respect of Italy and to the other countries in which we operate.

Our Chief Executive Officer is also a party to the undertakings described below:

Agreement with the Chief Executive Officer

On November 28, 2013, we entered into an agreement with our Chief Executive Officer, which governs the terms and conditions of his directorship, as subsequently modified on June 30, 2015, on November 5, 2015 and on February 17, 2017 (the "**CEO Agreement**"). The CEO Agreement is aimed at giving the parties mutual stability by (i) allowing us to benefit from the Chief Executive Officer's contribution and professional experience during the various phases of expansion of the business over the forthcoming years and (ii) providing the Chief Executive Officer with a sufficient amount of time to implement the strategies that we have asked him to implement.

Pursuant to the CEO Agreement, if we decide: (i) that Mr. Belingheri should not hold office as Director and Chief Executive Officer until the date of approval of our financial statements for the year ended December 31, 2020 (on the same salary as that currently paid and with the same powers as those currently granted to him, except as a result of any changes requested by public authorities or regulatory changes) or (ii) to dismiss the Chief Executive Officer without just cause or for a "bad leaver" cause as set out in the CEO Agreement (including, *inter alia*, certain offences, or, any act of fraud or gross negligence *vis-à-vis* the Company), we would be considered to have terminated his employment, and therefore we would be required to pay a severance payment to the Chief Executive Officer equal to the higher of: (a) 3 times his fixed salary (excluding bonuses, subsidies or other fringe benefits which form part of his current compensation) in the 12 months before the occurrence of the relevant event and (b) €1.6 million (the "**Severance**"). In such case, the non-compete undertaking of the Chief Executive Officer will not terminate as a result of termination of the CEO Agreement. We would be required to pay the Severance as follows: (i) 70% of the Severance within 60 days of the date on which the event which caused the termination of the employment occurred; and (ii) the remaining 30% within 3 years of that date. Pursuant to the latest amendment of the CEO Agreement, on February 17, 2017, 25% of the Severance has to be paid through financial instruments in accordance with the provisions of the applicable legal framework and the Group's Remuneration Policy. The Severance is: (a) subject to the rules on the malus and claw back requirements set out in the regulation related to the conditions for recognition of the variable remuneration approved by the Board of Directors on March 2, 2015; and (b) affected by the absence of any behavior by the Chief Executive Officer which may cause a significant loss for us or for the companies of the Group. In this regard, the Board of Directors has determined the minimum threshold of such loss to be equal to the "average" risk as resolved upon by the Board of Directors as of June 20, 2015 with the Risk Management Regulation. If the CEO Agreement is terminated, we will be required to pay the Severance even if the CEO does not resign from the Board of Directors.

In event that the funds managed by Centerbridge Partners Europe LLP (on the basis of the control chain described in "*Principal and Selling Shareholder*") lose control on us (in accordance with Article 2359 of the Italian Civil Code (including where such loss of control occurs as a result of a possible public offering aimed at listing our shares), we and our Chief Executive Officer will review in good faith the terms and the conditions of the CEO Agreement. If the parties fail to reach an agreement within a reasonable period of time, we will be considered to have terminated the employment of the Chief Executive Officer and therefore we will be required to pay the Severance.

The Chief Executive Officer shall not be required to resign as a result of termination of the CEO Agreement.

The CEO Agreement provides that in the event of a change in the applicable law having a significant negative impact on the remuneration of the Chief Executive Officer, the parties will re-negotiate in good faith the remuneration package and we will offer a new remuneration package which takes such changes into account. If the Chief Executive Officer does not accept the offer we make, he will be entitled to resign without breaching his stability undertaking and the CEO Agreement will terminate.

In the event of the Chief Executive Officer resigning, the Company will not have any obligation to pay the Severance to the Chief Executive Officer, or any other amount that has not been provided by law or provided by deferred bonuses or by the non competition agreement between the Company and the Chief Executive Officer.

Investment agreement between the Selling Shareholder, BFF Canada and the Managers

On June 10, 2015, BFF Lux Holdings (currently under liquidation), the Selling Shareholder, BFF Canada and the following managers entered into an investment agreement, which was lastly amended on October 21, 2016 (the "**Investment Agreement**"): Michele Antognoli, Massimiliano Belingheri, Andrea Benettin, Piergiorgio Bicci, Emanuele Bona, Fabio Boninsegni, David Calvet Canut, Roberto Castiglioni, Luca Cereghetti, Marina Corsi, Roberto Feltrin, Mauro Galimberti, Ferruccio Gambogi, Roberto Gavezzotti, Paola Golin, Grzegorz Grabowicz, Rafal Karnowski, Krzysztof Kawalec, Urban Kielichowski, Davide Kukaz, Walter Landi, Gianni Marzi, Radoslaw Moks, Angela Mottin, Giuseppe Pignatelli, Andrea Rota, Luciano Seminara, Laura Spotorno, Vittorio Torchia, Zbigniew Wiatr and Carlo Zanni (collectively, the "**Managers**"). In case of listing of the Company Shares the Investment Agreement will be terminated and replaced by the Exit Agreement. For further information, see "*Principal and Selling Shareholder—Investment agreement between the Selling Shareholder, BFF Canada and the Managers*".

Shareholders' Agreement between BFF Luxembourg and Mr. Marco Rabuffi

On April 27, 2015, Centerbridge Partners L.P. as the private investment company that ultimately operates the investment platform (to which the Fund, as defined below, indirectly holding a majority stake of BFF Luxembourg is part of) and Mr. Marco Rabuffi entered into an agreement aimed at regulating the relationship between Mr. Marco Rabuffi (holding through Unione Fiduciaria 0.45% of the share capital of the Company) and BFF Luxembourg as our shareholders (the "**Rabuffi Shareholders' Agreement**"), following completion of the purchase of the controlling stake of the Company by BFF Luxembourg (the "**Date of Completion**"). The Rabuffi Shareholders' Agreement shall terminate upon the occurrence of the first of the following events: (i) our direct or indirect (at BFF Luxembourg or BFF Canada level) sale which results in BFF Luxembourg retaining less than 50% of our share capital; (ii) our listing on a regulated market; (iii) the disposal by Mr. Marco Rabuffi of his shareholding in the Company; or (iv) the five year anniversary of the Date of Completion.

The main clauses of the Rabuffi Shareholders' Agreement, provide for, *inter alia*: (i) the appointment of Mr. Marco Rabuffi as member of the Board of Directors; (ii) the allocation to Mr. Marco Rabuffi of a put option with respect to Centerbridge Partners L.P., to be exercised over at least 25% of the total shares held by Mr. Marco Rabuffi at the Date of Completion; (iii) in the event that Mr. Marco Rabuffi decides, for any reason, not to be a member of the Board of Directors and BFF Luxembourg continues to hold our majority stake, a call option shall be allocated to Centerbridge Partners L.P., to be exercised over all of the shares of the Company held by Mr. Marco Rabuffi; (iv) certain restrictions on the transfer of our shares held by Mr. Marco Rabuffi (excluding the listing or our sale); (v) a pro-quota co-sale right granted to Mr. Marco Rabuffi to co-sale his shareholding in the event BFF Luxembourg transfers, in a sole or several related transactions, a holding in our share capital which results in BFF Luxembourg retaining less than 50% of our share capital; (vi) a drag-along right in favor of BFF Luxembourg in the event of our sale.

The Rabuffi Shareholders' Agreement will terminate, *inter alia*, in case of our listing without any economic consequence for us.

Agreement with David Calvet Canut

In addition, on February 14, 2017, BFF Luxembourg entered into an agreement with David Calvet Canut, senior executive of the Company (General Manager of Farmafactoring España), providing for the assignment to BFF Luxembourg, upon the occurrence of certain circumstances, a right to purchase 60% of the Company's shares which will be transferred to David Calvet Canut pursuant to the Exit Agreement.

Adoption of Corporate Governance Rules

The shareholders, at the extraordinary shareholders' meeting held on December 5, 2016, resolved upon, among other things, the adoption of a new set of by-laws, which will enter into force on the Trading Date, to ensure compliance in corporate governance matters with all applicable law as well as the non-mandatory principles set forth in the Self-Regulatory Code and Italian securities market regulations (MTA). Specifically, we have amended our by-laws, effective as from the Trading Date, to reflect that:

- pursuant to Article 147-*ter* of the Consolidated Financial Act, a "voting list" system for the appointment of the members of the Board of Directors will be used. This mechanism will allow the appointment of one director from the list presented by minority shareholders (which should not be linked, directly or indirectly, to the shareholders which have presented or voted for the most voted list) who obtains the highest number of votes. The provisions regarding the voting lists contained in the by-laws will be applied for the first time only to the first election of the Board subsequent to the Trading Date;
- pursuant to Article 148 of the Consolidated Financial Act, a "voting list" system for the appointment of the members of the board of statutory auditors will be used. This mechanism will allow the appointment of one statutory auditor from the list presented by minority shareholders (such minority shareholders not being linked, directly or indirectly, to the shareholders which have presented or voted for the most voted list), who obtains the highest number of votes, as provided by Article 148, paragraph 2, of the Consolidated Financial Act. The auditor appointed by the minority shareholders will be appointed the Chairman of the Board of Statutory Auditors, in compliance with the provisions of Article 148, paragraph 2-*bis*, of the Consolidated Financial Act. The provisions regarding the voting lists contained in our by-laws will be applicable with effect as of the first appointment of the statutory auditors subsequent to the Trading Date; and
- pursuant to Article 147-*ter* and 148 of the Consolidated Financial Act, members of the Board of Directors and of the Board of Statutory Auditors have been appointed to ensure that the number of directors of the least represented gender meets the requirements applicable to listed companies, pursuant to and in compliance with the CONSOB Communication DIE No. 0061499 of July 18, 2013.

Procedure for the management of transactions with parties with conflicts of interest

The management of transactions with parties with conflicts of interest is governed by the RPT Regulation.

For the purpose of the RPT Regulation, "parties with conflicts of interest" means the set of Consob Related Parties ("*Parti Correlate CONSOB*") as defined in Annex 1 of the Regulation adopted by Consob through Resolution No. 17221 of March 12, 2010 and Associated Parties ("*Soggetti Collegati*"), such as the Bank of Italy Related Parties ("*Parti Correlate Banca d'Italia*") (including Bank of Italy Non-Financial Related Parties) ("*Parti Correlate Non Finanziarie Banca d'Italia*") and Connected Parties ("*Soggetti Connessi*") as defined, respectively by Bank of Italy Circular No. 263 of December 27, 2006 ("**Circular 263**").

Through the RPT Regulation, we have set internal rules intended to ensure the transparency and correctness of the procedure for identifying and approving transactions with Related Parties, that we, directly or through subsidiaries, carry out. These rules have been set with the main goal of safeguarding the risk that the possible proximity of the Related Parties to decision-making centers of the Company could compromise the objectivity and impartiality of the decisions involving transactions with said parties, with the consequence of possible distortions to the process of allocating resources, exposure to risk not adequately measured or safeguarded, and potential damages to shareholders and stakeholders.

Pursuant to the RPT Regulation, the procedure for the approval of transactions with Consob Related Parties and Associated Parties comprises the following main stages:

(i) identification of the Consob Related Parties and Associated Parties on the basis of the criteria established by the regulations and recording of said parties in a dedicated register, subject to regular updating;

(ii) prior to the execution of a transaction, check whether the counter-party/customer in the transaction is identified as a Consob Related Party or an Associated Party in the Group register;

(iii) check whether the transaction in question comes under the scope of a transaction with Associated Parties or a transaction with Related Parties as defined in the RPT Regulation, and does not come under transactions identified as exempt in the RPT Regulation in conformity with the regulations;

(iv) subject to the positive outcome of the check in point (iii) above, measurement of the size of the transaction based on the quantitative levels provided for by the RPT Regulation and its qualification as a “Transaction of Greater Significance” (“*Operazione di Maggiore Rilevanza*”) or a “Transaction of Lesser Significance” (“*Operazione di Minore Rilevanza*”), or an exempt transaction;

(v) investigatory stage and negotiations, during which the RPT Committee is given, well in advance, full and adequate information about the various profiles of the transaction. Specifically, in the case of Transactions of Greater Significance and transactions that come under the scope of the shareholders’ meeting, the members of the RPT Committee are involved through receiving a full and timely information flow, and they have the right to ask for information and make observations to the delegated bodies and parties responsible for conducting negotiations or the investigations;

(vi) pre-resolution stage, which involves the acquisition of (a) a preliminary non-binding opinion, expressed by the majority of members of the RPT Committee, in the case of Transactions of Lesser Significance, and (b) a preliminary non-binding opinion expressed unanimously by the RPT Committee, in the case of Transactions of Greater Significance. If for Transactions of Greater Significance the opinion of the RPT Committee is negative or there are findings, the Board of Statutory Auditors should also be involved in the analysis of the transaction so that it provides a preliminary and reasoned opinion without prejudice, in any event, of the competence of the shareholders’ meeting to authorize the execution thereof. The tasks of the RPT Committee in the pre-resolution stage are carried out by the Board of Statutory Auditors, with the possible support of an independent expert, if (a) as regards Transactions of Lesser Significance, there are not at least 2 independent directors that do qualify as not related e/o Connected or (b) as regards Transactions of Greater Significance, there are not at least 3 independent directors that do qualify as not related e/o Connected;

(vii) sending of the dossier to the competent decision-making body depending on the size of the transaction and/or counter-party. In this respect, the Board of Directors is entitled to resolve upon individual Transactions of Greater Significance, unless the law or the by-laws attribute the competence to the Shareholders’ meeting, as well as on every transactions that give rise to losses, transfer to non-performing loans, judicial and extrajudicial settlements, unless the latter classify as Transaction of Minimal Amount (as defined below), in which case the Company does not apply the instruments provided for in the pre-resolution and resolution stage. The competence to resolve upon the Transaction of Lesser Significance rests on to the corporate bodies with resolution powers in this field or to the Head of the Business Unit/of the Subsidiary (on the basis of the effective system of delegation), it being understood that if the connection exists with the competent delegated body, or with a Consob Related Party or an Associated Party, the delegated body shall abstain from the completion of the relevant transaction and shall remit it to the Board of Directors. Where in the pre-resolution stage the RPT Committee to express a negative or conditioned on findings opinion with respect to Transactions of Lesser Significance, the latter may be approved by the Board of Directors, subject to the necessity to provide the underlying reasons;

(viii) periodic internal information about approved transactions and, where applicable, disclosure to the public and Consob; and

(ix) reports on the supervision and monitoring of the risk activities.

This procedure applies even if a transaction with Consob Related Parties or Associated Parties is carried out with a company controlled by the Bank and the Board of Directors of the Bank, or the CEO, by their own independent choice, or pursuant to self-regulatory codes or applicable legislation, examines or approves the transaction to be carried out in advance. In addition, the CEO (and/or the party to which powers for carrying out specific transactions have been assigned), having consulted with the RPT Committee, can, from time to time, propose to the Board of Directors that this procedure is also applied to transactions with Consob Related Parties and Associated Parties independently carried out by subsidiaries of the Bank. The RPT Regulation also governs the management of transactions with parties that carry out administrative, management and control functions in the Bank.

The RPT Committee evaluates, supports and makes proposals with regard to the organization and implementation of internal controls involving all risk taking and management activities with Consob Related Parties and Associated Parties, as well as the general verification of the consistency of activities with strategic and management guidelines.

Model of Organization, Management and Control Pursuant to Legislative Decree No. 231/2001

The Board of Directors on February 23, 2004, adopted an organizational, management and supervision model (the "**Model**") pursuant to Italian Legislative Decree 231/2001. The Board of Directors further appointed a specific Supervisory Board, independent from our executive body and with autonomous powers, with the duty of updating and supervising the functioning, efficacy and observance of the Model.

In compliance with Italian Legislative Decree 231/2001 and the best practice of the industry, the Model follows the guidelines issued by ASSIFACT, ABI and Confindustria, and has been updated and reviewed with a resolution of the Board of Directors held on December 19, 2014 and April 28, 2016. The Model is being updated in order to ensure inclusion of the criminal offences concerning "market abuse" and also for the purpose of formally including our Spanish branch within the Model's scope of application. The Board of Directors of the Company will approve this version of the Model during the month of January 2017.

The Model includes the following sections:

- a general section which, in addition to a summary of Italian Legislative Decree No. 231/2001, sets out the Model's characteristics and main items, the functions and powers of the Supervisory Board, the information flow system and communications from/to the Supervisory Board, the penalties aimed at compliance with the provisions set out in the Model, the Model disclosure obligations and the training of personnel; and
- a special section which is articulated as follows:
- Special Section I (*Matrice delle attività a rischio reato*), aimed at identifying all types of offences which may be committed potentially accomplished in the course of our business activities;
- Special Section II (*Protocolli*), setting out the activities, controls and reporting mechanisms aimed at compliance between our organizational and control system and the rules set forth by Legislative Decree No. 231/2001. In particular, our internal controls system, as determined by the specific protocols, is based on the following principles:
  - (a) traceability of the business processes;
  - (b) authorization levels and system of proxies and authorizations;
  - (c) segregation of duties;
  - (d) documentary traceability; and
  - (e) existence of the control and monitoring activity.
- Special Section III (*Flussi informativi verso l'Organismo di Vigilanza*)

Our code of ethics (the "**Code of Ethics**") sets forth the highest level of ethic benchmark and defines our founding values and deontology rules, which are required to be applied by all of its addressees. Our Code of Ethics is an independent document containing the ethical and conduct principles aimed at preventing unlawful conduct as provided under Italian Legislative Decree No. 231/2001. We apply the rules of conduct at a Group level to ensure that our entire business is carried out in compliance with the ethical principles set out in the Code of Ethics. All of our Group companies have received the Code of Ethics and adopt its rules, and, to the extent necessary, integrate it with the values and principles related to their specific business and exposure to the "risk crimes" set out under Italian Legislative Decree No. 231/2001.

The Supervisory Body, created in accordance with Italian Legislative Decree No. 231/2001, consists of three members, of which one external member as Chairman and two acting members represented, as of the date of this Offering Circular, by the Manager of the Internal Audit and by the Chairman of the Board of Statutory Auditors.

The following table sets forth the members of our Supervisory Body as of the Listing Date.

Name	Title	Date of birth
Giovanni Maria Garegnani	Chairman of the Supervisory Body and external member	June 26, 1960
Marina Corsi	Manager of the Internal Audit	October 7, 1960
Marco Lori	Chairman of the Board of Statutory Auditors	August 31, 1956

Compensation

Compensation and benefits for each member of the Board of Directors, Supervisory Board and control bodies

On December 5, 2016 the Shareholders' meeting of the Company adopted the (i) "**Compensation and Incentive Policy**" in favor of both the members of the bodies of strategic supervision, management and control and the personnel of the Group, after Company had become an intermediate bank (the "**Intermediate Bank Remuneration Policy**"), effective as from the date of this Offering Circular, and (ii) the "**Compensation and Incentive Policy**" in favor of both the members of the bodies of strategic supervision, management and control and the personnel of the Group, previously approved and modified by the Board of Directors on April 11, February 26 and July 8, 2016 (the "**IPO Remuneration Policy**"), with effects conditioned upon the Listing.

The Intermediate Bank Remuneration Policy provides for a remunerative structure providing for a "*balanced package*", which is based on:

- A fixed component in compliance with the applicable contractual provisions (*i.e.* the Italian national collective labor agreement for management staff and employees working in professional areas dependent upon credit, finance and instrumental companies and the Italian national collective labor agreement for directors dependent upon credit, finance and instrumental companies and similar contracts within the Spanish legal framework);
- A variable component for the recognition of results achieved through a direct connection between the compensation and actual results in the short, medium and long-term of the Group, the Company and the individual employee. The variable component for the *top management* is linked to the achievement of budgetary objectives (it will amount to zero in the event that these objectives are not achieved):
  - (i) for the CEO, the variable component is linked to the achievement of economic objectives, adjusted on the basis of the risk as indicated in the risk appetite framework, as well as the maintenance of the minimum standards of regulatory capital and liquidity.
  - (ii) For the most relevant residual key personnel (risk takers), the following are provided: (a) a focus on annual aims; (b) sustainability mechanisms in the long-term; (c) retention mechanisms for employees.

    There are currently sixteen people deemed as risk takers: Chief Executive Officer; Head of Factoring; Head of Finance and Credit; Head of Planning, Administration and Control; Head of Organization, Systems and Personnel; Head of Risk Management; Head of Online Banking; Head of Credit Evaluation; Internal Auditor; Head of Information and Communication Technologies; Head of Personnel and General Services; Head of Compliance and Anti Money Laundering 'AML'; Head of Credit Collection Management; Head of Commercial; Head of the Treasury and Chief Operating Officer of Farmafactoring España. All risk takers receive variable remuneration.

    Four of the risk takers have control functions: Head of Risk Management, Internal Auditor, Head of Compliance and Anti Money Laundering 'AML', and Head of Personnel and General Services.

    In order to ensure a long-term sustainability of our compensation and incentive systems, a bonus is paid as follows: (i) 70% after the approval of the consolidated financial statements by the shareholders' meeting (up-front component); (ii) 30% after 3 (three) years starting from its accrual (deferred component).
  - (i) For the remaining part of the staff, the Group applies incentives (on the basis of relevance and complexity of offices), fairness principles and alignments to local labor markets, in compliance with the aforesaid guidelines determined by the Group. The Group takes into account the specific characteristics of the organization, the aims of the business and the context. The above incentive systems are consistent with the annual process aimed at evaluating the performance of employees.
  - (ii) For all the personnel (including the most relevant one), there shall be the return/ non-distribution of the variable component in the event of fraudulent behaviors or breach of the Code of Ethics and the provisions of Italian Legislative Decree 231/2001.

In accordance with the provisions related to intermediate banks set out in Circular No. 285/2013 of the Bank of Italy, the Intermediate Bank Remuneration Policy provides that, for the most relevant personnel, the variable component of the remuneration is balanced by a ratio at least equal to 25% of shares, instruments linked thereto and other instruments set forth under Regulation (EU) No. 527/2014. These provisions apply to both the up-front and deferred components.

On December 5, 2016, upon request of the Board of Directors, the shareholders resolved on the increase of the ratio, equal to 2:1, between the variable and the fixed component of the compensation for the risk takers at the Group level, save for the Heads of Control Functions (as defined by the Bank of Italy) whose compensation cap is set to 33%.

In addition, the CEO Agreement, initially agreed on November 28, 2013 and modified on June 30, 2015 and November 5, 2015, has been further updated as of February 17, 2017, in recognition of the Company's new qualification as an intermediate bank, aligning the terms of the CEO Agreement with Circular 285 and the Group's Remuneration Policy.

Pursuant to the provisions set out under Circular No. 285/2013 of the Bank of Italy for intermediate banks and the Group's current Remuneration Policy, part of the risk takers' (including the CEO) variable compensation must be distributed in the form of shares and financial instruments.

Therefore, the modified CEO Agreement as of February 17, 2017 states that 25% of the CEO's compensation will be made up of shares and financial instruments.

In order to accrue the variable component of the compensation, the employees must have tenure for at least six months in the relevant financial year and in order to receive the accrued bonus, they must still be an employee of the Group at the time of distribution. Following Listing, the IPO Remuneration Policy shall apply.

The upfront and deferred payment of the variable component is subject to equity, income and liquidity parameters.

The variable component is also subject to *ex post* corrective mechanisms (malus and claw back), which could lead to a significant decrease in the variable component. Furthermore, any form of guaranteed variable compensation is not permitted, except during the first year of employment of new personnel. In this case, the compensation shall not be paid more than once to the same person and shall not be subject to the rules on the variable compensation, but shall nonetheless be subject to the payment ratio between variable and fixed compensation for the first year.

With reference to the stock option plans to the benefits of employees and members of the corporate bodies, see "*Business—Shareholding and stock option plan*" and "*Business—Shareholding and stock option plan—Phantom Share Plan*".

In case of termination of the employment, the termination is determined on the basis of the provisions of the specific collective agreement. The Board of Directors determines, in accordance with applicable law, the application of golden parachutes to key personnel, in case of early termination of the employment or upon the expiry of their office. The Board of Directors on June 23, 2016, granted some golden parachutes with reference to the Senior Executives Roberto Castiglioni and Luciano Seminara, to whom certain benefits will be granted in case the employment will be terminated in advance.

The criteria to be applied entail qualitative and qualitative indicators reflecting the performance, the risks assumed by the employee and us and the *ex post* correction mechanisms (malus and claw back), within the limits of the specific collective agreements applicable to the employment and of the applicable laws.

Circular No. 285/13 sets forth the applicable limits for such payment as follows: the maximum payment amount paid may not exceed 400% of the compensation during the previous year.

For the purposes of public disclosure, as required by Bank of Italy Circular No. 285 of December 17, 2013, we shall publish the Remuneration Policy on its website (in the *Governance* section):

- information on the connection between remuneration and performance;
- key characteristics of its remuneration system, including information on the criteria used for performance evaluation and adaptation to risks, deferral policies and allocation criteria;
- aggregate amount of remuneration, distinguished by activity;

- aggregate amount of remuneration, broken down by Senior Management and personnel whose actions have a significant impact on the Group's risk profile; and
- the number of persons receiving €1 million or more per financial year, for remuneration between €1 million and €5 million, split into bands of €500,000, and for remuneration equal to or higher than €5 million, split into bands of €1 million.

We also publish the remuneration policy effective from time to time on our website (in the "Governance" section).

The IPO Remuneration Policy, whose effectiveness is conditioned upon the Listing, leaves the rules set out in the Intermediate Bank Remuneration Policy substantially unchanged, save as follows:

(i) for the key personnel the variable component of the remuneration is balanced for a ratio at least equal to 50% of shares, instruments linked thereto and other instruments set out under the Regulation (EU) No. 527/2014.

(ii) It is not anymore provided that the maximum limit of ratio, equal to 2:1, between the variable and the fixed component of the compensation shall apply to key personnel only.

Non-compete agreements signed by Senior Management include an ex post remuneration mechanism, calculated as a percentage of the final gross annual compensation received before termination. No bonuses are currently paid because of these agreements.

Board of Directors

The gross annual fixed compensation of the Board of Directors for the year ended December 31, 2016 amounted to €1,127 thousand.

During the year ended December 31, 2015, fixed compensation actually paid amounted to €1,151,824 and variable compensation amounted to €533,800, including a deferred amount of €160,140.

On November 4, 2015 and on March 31, 2016, our Shareholders' Meeting determined a gross annual fixed compensation of € 35,000 for each member of the Board of Directors, to be paid on a quarterly basis, *pro rata temporis* (without prejudice to any waiver of remunerations for the year ended December 31, 2015, as represented below).

On November 4, 2015, at the proposal of the Remuneration Committee, the Board of Directors resolved upon a compensation of €170,000 for the office of Chairman of the Board of Directors and a compensation of €667,000 for the office of CEO.

On November 4, 2015, the Board of Directors resolved upon a gross annual compensation of €15,000 for each Chairman of the Nominating Committee, Compensation Committee and Control and Risk Committee.

The following table sets forth the compensation paid and any benefit allocated for the year ended December 31, 2016, for any purpose and in any form, to each of the current members of our Board of Directors in office as of the date of this Offering Circular.

Name	Current Office	Compensation paid for the year ended December 31, 2016 (amount in Euro)
Salvatore Messina	—Independent Director and Chairman of the Board of Directors —Member of the Remuneration Committee —Chairman of the RPT —Member of the Control and Risk Committee	—€170,000 as Chairman for the Board of Directors; —€35,000 as Director
Massimiliano Belingheri	—CEO —Director	—€667,000 as CEO; —€35,000 as Director —€697,000 variable compensation (of which €487,900 already paid and €209,100 still to be paid, being deferred) Availability of €78,320 as benefits for Senior Managers (e.g. car, insurance etc.)
Luigi Sbrozzi	—Director —Member of the Remuneration Committee —Member of the Control and Risk Committee	—Compensation waived
Gabriele Michaela Schindler Aumann	—Director appointed by co-optation on December 21, 2015 —Chairman of the Control and Risk Committee —Member of the Nominating Committee	—€35,000 as Director; compensation accrued pro—rata on 2015 amounted to €1,643.84 and will be paid in 2016.
Mark John Arnold	—Director appointed by co-optation on December 21, 2015.	—Compensation waived
Federico Fornari Luswerg	—Director —Chairman of the Nominating Committee	—€35,000 as Director —€15,000 as Chairman of the Nominating Committee
Ben Carlton Langworthy	—Director —Member of the Nominating Committee	—Compensation waived
Elisabetta Oliveri	—Director —Member of the RPT —Chairman of the Remuneration Committee	—€35,000 as Director —€15,000 as Chairman of the Remuneration Committee
Marco Rabuffi	—Director	—€35,000 as Director
Giampaolo Zambeletti Rossi	—Director —Member of the RPT	—€35,000 as Director

Board of Statutory Auditors

The gross annual compensation of the Board of Statutory Auditors for the year ended 2016, amounted to €170 thousand, of which €70,000 for the Chairman of the Board of Statutory Auditors and €50,000 for each Auditor.

The former Chairman of the Board of Statutory Auditors was also a member of the Supervisory Board and was compensated with a yearly gross amount of €10,000 for the three years period 2015-2017.

Principal Executives

The fixed total compensation of our Principal Executives for the year ended December 31, 2016, amounted to €1,519,835. Our Principal Executives may also receive an additional gross compensation of which 70% will be paid in March 2016 and 30% in March 2019, available upon fulfilling of certain targets.

As of the date of this Offering Circular: (i) none of the members of our Board of Directors or Board of Statutory Auditors is entitled to severance indemnities, and (ii) none of our Principal Executives is entitled to severance indemnities in addition to those provided under applicable law.

Non-compete agreements signed by Senior Management include an ex post remuneration mechanism, calculated as a percentage of the final gross annual remuneration received before termination. No bonuses are currently paid because of these agreements.

The following table sets forth the portions of the fixed individual compensation paid by the Company to the Principal Executives in respect of the year 2016.

Name	Fixed component*
Massimiliano Belingheri	€667,000.00
Roberto Castiglioni	€228,488.13
Luciano Seminara	€226,987.21
Carlo Maurizio Zanni	€199,026.49
David Calvet Canut**	€198,333.37

* As of the date of this Offering Circular, the variable components have been determined but not yet liquidated.

** To be paid by Farmafactoring España.

Dividends

On February 13, 2017, the Board of Directors of the Company decided to distribute €42.4 per share, for a total amount of €72,125,538, gross of withholding tax, payable from March 15, 2017 with the record date set at March 14, 2017, with the shareholders meeting approving the measure on March 9, 2017.

PRINCIPAL AND SELLING SHAREHOLDER

Beneficial Ownership

The table below sets out the information known to us, with respect to the beneficial ownership of our ordinary shares, as of the date of this Offering Circular and as adjusted to reflect the sale of our Offer Shares by the Selling Shareholder pursuant to the Offering.

	Existing shares prior to the Offering	Shares following the Stock Split	% of shares prior to the Offering	% of voting rights	Number of Shares Offered	Shares following the Offering	% of shares following the Offering	% of voting rights	Over-allotment Option	Shares following the Over-allotment Option	% of shares following the Over-allotment Option	(% of voting rights)
BFF Luxembourg(1)	1,602,341	160,234,100	94.196	94.225	53,000,000	107,234,100	63.039	63.039	7,950,000	99,284,100	58.366	58.366
Bracco S.p.A.	55,689	5,568,900	3.274	3.276	—	5,568,900	3.274	3.274	—	5,568,900	3.274	3.274
Mediolanum Farmaceutici S.p.A.	20,517	2,051,700	1.206	1.207	—	2,051,700	1.206	1.206	—	2,015,700	1.206	1.206
L. Molteni & C. dei Fratelli Alitti Società Immobiliare S.r.l.	14,450	1,445,000	0.849	0.412	—	1,445,000	0.849	0.849	—	1,445,000	0.849	0.849
Unione Fiduciaria S.p.A. Società Fiduciaria e di servizi delle Banche Popolari Italiane	7,003	700,300	0.412		—	700,300	0.412	0.412	—	700,300	0.412	0.412
Public float	—	—	0.063	0.0	—	53,000,000	31.157	31.157	—	60,950,000	35.830	35.830
Employees with special shares	1,074	107,400	0.0	0.0	—	107,400	0.063	0.063	—	107,400	0.063	0.063
Total	1,701,074	170,107,400	100.0	100.0	53,000,000	170,107,400	100.0	100.0	—	179,107,400	100.0	100.0

(1) As of the date of this Offering Circular the 94.196% of the share capital of BFF Luxembourg is jointly held by Centerbridge Capital Partners III (PEI) L.P., Centerbridge Capital Partners SBS III L.P., America Co—Invest L.P. e Amica Strategic L.P. (the "**CB Funds**"), while the remaining share capital of BFF Luxembourg is held by the Managers, through Cordusio Società Fiduciaria per Azioni.

(2) For the description of the terms and conditions of the Exit Agreement see "*Principal and Selling Shareholder—Investment agreement between the Selling Shareholder, BFF Canada and the Managers*".

As of the date of this Offering Circular, the shares owned by certain Managers are pledged in favor of BFF Canada. See "*Principal and Selling Shareholder—Investment agreement between the Selling Shareholder, BFF Canada and the Managers*".

Selling Shareholder

As of the date of this Offering Circular, our controlling shareholder is the Selling Shareholder, BFF Luxembourg, a Luxembourg company, the majority interest in which is indirectly held by the limited partnership Centerbridge Capital Partners III (PEI) L.P. (the "**Fund**"). As of the date of this Offering Circular the Selling Shareholder owns 94,196% of our share capital prior to the Offering. The Fund is part of a group of private equity funds included in the Centerbridge Capital Partners investment platform. The Centerbridge Capital Partners' investment platform is ultimately managed by the private investment firm Centerbridge Partners L.P. ("**Centerbridge Partners**"), a limited partnership with registered office in New York, United State of America, through its subsidiary Centerbridge Partners Europe LLP, with registered office in London, United Kingdom ("**Centerbridge Partners Europe**"; collectively, "**Centerbridge**"). The Centerbridge entity which ultimately manages the Fund, as upper tier general partner, is CCP III JE GP Ltd. CCP III JE GP Ltd is managed by the same top members managing Centerbridge with the office of managing principals.

As of November 4, 2015, the date of the BFF Luxembourg's acquisition of shares in the Company, the Fund held its shareholding through a chain of control comprising (from the top) BFF Canada, BFF Lux Holdings S.à r.l and BFF Luxembourg. On June 20, 2016, BFF Lux Holdings S.à r.l. was put into liquidation and, on June 21, 2016 its shareholding in BFF Luxembourg was transferred to BFF Canada. As a result, as of the date of this Offering Circular, the majority interest of the Fund in the share capital of BFF Luxembourg is indirectly held through BFF Canada, which, in turn, is the direct majority shareholder of BFF Luxembourg.

The Fund together with its two co-investment vehicles Amica Co-Invest, Limited Partnership, and Amica Strategic Limited Partnership, holds 97.68% of the share capital of BFF Canada. The remaining part of the share capital of BFF Canada, equal to 2.32%, is held by Centerbridge Capital Partners SBS III L.P., a limited partnership, member of the group of private equity funds included in the investment platform of Centerbridge Capital Partners.

BFF Canada is managed by its general partner, BFF JE GP Ltd (Jersey) ("**BFF General Partner**"), a company regulated by the Jersey Financial Services Commission in Jersey. BFF General Partner is managed by the same top members managing Centerbridge (with the office of Managing Principals) and CCP III JE GP Ltd., as mentioned above. BFF General Partner is entitled to exercise certain powers and/or voting and appointing rights, stemming from the financial instruments (e.g. ordinary shares, preference shares, etc.) held by the Fund in BFF Canada. The Fund, as limited partner, does not participate in the management of BFF Canada. The management of BFF Canada is exclusively assigned to its general partner.

Therefore, the Fund does not control us. Conversely, BFF General Partner is the entity that ultimately manages the Selling Shareholder, at its sole discretion and with decision-making power. Although the Selling Shareholder is entitled to appoint—on the basis of the percentage held in the Company's share capital and the By-laws currently in force—our board of directors, it acts as a holding company. Therefore the Selling Shareholder cannot establish how the directors should act or how they should exercise their powers, since they are subject only to the local applicable laws. Therefore, BFF General Partner shall determine the exercise of powers and/or rights of vote and appointment, arising from its indirect control over us. The Selling Shareholder is not involved in the daily management of the Company, which is attributed to our corporate bodies and none of the Fund, BFF General Partner and the Selling Shareholder carries out any management and coordination activity over us.

Our chain of control is summarized below:

(i) the Company is directly controlled by the Selling Shareholder, which exercises the majority of the voting rights in the Company and is entitled to appoint the majority of members of the board of directors of the Company;

(ii) the Selling Shareholder is controlled by BFF Canada, which holds 95.14% of the share capital of BFF Luxembourg as of the date of this Offering Circular and is entitled to appoint the majority of members of the board of directors of BFF Luxembourg; and

(iii) BFF Canada is controlled by its general partner BFF General Partner, which is entitled to appoint all of the directors of BFF Canada.

As of the date of this Offering Circular, other than the ordinary shares, we have not issued any shares carrying voting rights.

In accordance with the Exit Agreement, the Managers will receive, as well as a cash component, a certain number of our shares, in consideration for their Lux Shares. Therefore: (i) Managers will become (direct) shareholders of the Company; and (ii) the Selling Shareholder's interest in the Company will proportionally decrease.

The Selling Shareholder is offering 53,000,000 Offer Shares pursuant to the Offering. In addition, the Selling Shareholder has granted the Joint Global Coordinators, on behalf of the several institutional managers named in this Offering Circular, the Over-allotment Option to purchase up to 7,950,000 Over-allotment Shares in the Offering. See "*Plan of Distribution—Over-allotment Option*".

Immediately following the Offering, the Selling Shareholder will own 63.0% % of our share capital (58.37% if the Over-allotment Option is exercised in full). See "*Risk Factors—Risks Related to the Offer Shares and the Offering—We are controlled by the Selling Shareholder, whose interests may not be aligned with our interests or those of the holders of our ordinary shares*".

Other Shareholders

As of the date of this Offering Circular and prior to the Offering, certain of our Principal Executives and one of our directors own a minority shareholding in the Company. In particular, Massimiliano Belingheri, managing director of the Company, owns 2.28% of the share capital of the Selling Shareholder and Marco Rabuffi indirectly owns, through Unione Fiduciaria S.p.A., 0.45% of our share capital.

Stock Split

The By-laws of the Company, which are set to enter into force on the Trading Date, provide, *inter alia*, that the Company's share capital shall be split into 170,107,400 ordinary shares with no par value (resulting from a stock split carried out on the basis of a 1:100 ratio). In particular, following the entrance into force of the abovementioned By-laws, the Offering shall concern a maximum number of 53,000,000 Offer Shares.

Moreover, should the Over-allotment option—granted by the Selling Shareholder to the Joint Global Coordinators, on behalf of the several institutional managers, providing the right to purchase up to 7,950,000 additional Offer Shares (15% of the shares offered in the Offering) at the offering price in order to cover any over-allotments—be exercised in full, the Offered Shares shall correspond to a total of 35.83% of the Company's share capital.

Lock-Up Agreements

The Selling Shareholder has agreed to abide by lock-up commitments which prevent it from issuing, offering, pledging, selling, contracting to sell, selling or granting any option, right, warrant or contract to purchase, exercising any option to sell, purchase any option or contract to sell, or lending or otherwise transferring or disposing of any ordinary shares, or any securities convertible into or exercisable or exchangeable for ordinary shares without the prior written consent of the Joint Global Coordinators (not to be unreasonably withheld), except in certain limited circumstances for a period of 360 days from the Trading Date. See "*Plan of Distribution—Lock-Up Agreements*".

Shareholders' agreement between the Selling Shareholder and our minority shareholders

On November 2, 2015, the Selling Shareholder and certain minority shareholders (Bracco S.p.A., Mediolanum Farmaceutici S.p.A. and L. Molteni & C. of Fratelli Alitti Società di Esercizio S.p.A. (thereafter replaced by L. Molteni & C. of Fratelli Alitti Società Immobiliare S.r.l.), collectively the "**Minority Shareholders**") entered into a shareholders' agreement.

The shareholders' agreement with the Minority Shareholders shall terminate upon the occurrence of any of the following events: (i) the sale or the transfer of a shareholding in the Company, resulting in BFF Luxembourg holding less than 50% of the share capital of the company, directly at the Company level or indirectly at BFF Luxembourg or BFF Canada level; (ii) our listing on a regulated market; (iii) sale of all of the ordinary shares held by the Minority Shareholders in the Company; or (iv) fifth year anniversary of the signing of the shareholders' agreement.

The shareholders' agreement with the Minority Shareholders provides for, *inter alia*: (i) the right of Minority Shareholders to appoint one member of the board of directors and one acting member of our board of statutory auditors, and the right of the Selling Shareholder to appoint the remaining members of the board of directors and the board of statutory auditors; (ii) the right to access information and documentation made available by the board of directors; (iii) certain restrictions on share transfers by the Minority Shareholders; (iv) tag along rights in favor of Minority Shareholders in the event of a sale by the Selling Shareholder of all or part of its shareholding in the Company resulting in the Selling Shareholder holding less than 50%; and (v) drag along rights in favor of the Selling Shareholder in the event of the sale of all of the shares held by the Minority Shareholders.

Supplementary agreements between Centerbridge Partners and our Minority Shareholders

On November 2, 2015, Centerbridge Partners L.P. entered into an agreement with each of the Minority Shareholders (each, a "**Supplementary Agreement**"), pursuant to which: (i) the Minority Shareholders agreed to assume *pro rata* to their respective shareholding, any liability for any potential dilutive effects of the Investment Agreement upon the occurrence of an "exit event" (including the listing or direct or indirect (at BFF Luxembourg or BFF Canada level) sale of the Company) and (ii) an option was granted to Centerbridge Partners (or any other designated entity) to purchase a certain number of shares held by the Minority Shareholders in the Company.

Pursuant to the Supplementary Agreements, Centerbridge Partners L.P. has the option to purchase a number of our shares belonging to the Minority Shareholders equal to the higher between (i) zero and (ii) a certain amount determined according to the formula contained in the Supplementary Agreements, as set out below, for a total consideration of €1.00.

(AxB)/C (with a rounding down to the nearest whole number), where:

- "A" means the shareholding in the Company held by the Minority Shareholder, calculated as number of shares held by the Minority Shareholder divided by the total number of our shares in issue.

- "B" means the cumulative net value realized in relation to the Callable Shares by the participants in the investment plan set out in the Investment Agreement on the occurrence of an "exit event" (i.e., our listing or sale).
- "C" means the price for each our share on the occurrence of an "exit event" (i.e., our listing or sale).

In addition, pursuant to the Supplementary Agreement entered into with Bracco S.p.A. (holding 3.276% of the share capital of the Company), during the period of one year from the third anniversary of the signing of the Supplementary Agreement, Bracco S.p.A. is entitled to sell, by exercising a put option, all of the shares held by it in the Company to Centerbridge Partners L.P. (or any other designated entity) at a price agreed upon with Centerbridge Partners L.P. (or, failing agreement within 30 days from the date of exercise of the put option, at the fair market value of the shares as determined by an independent third party).

Investment agreement between the Selling Shareholder, BFF Canada and the Managers

On June 10, 2015, CB funds, BFF PEI Limited Partnership ("**BFF Canada**", as successor of BFF Lux Holdings), its subsidiary BFF Luxembourg (which currently holds 94.196% of the share capital of the Company) BFF Lux Holdings (in liquidation as of the date of this Offering Circular), the Selling Shareholder, and the Managers entered into the Investment Agreement, which was subsequently amended on October 30, 2015 and last on October 21, 2016.

The Managers also entered into a trustee mandate which authorizes Cordusio Società Fiduciaria per Azioni ("**Cordusio Fiduciaria**") to take all necessary actions and exercise all rights granted to the Managers under the Investment Agreement or the Selling Shareholder's by-laws.

Each Manager has subscribed for and purchased at market value, through Cordusio Fiduciaria, a certain number of ordinary shares (the "**Lux Ordinary Shares**") and preference shares (the "**Lux Preference Shares**") in the Selling Shareholder. The Lux Preference Shares represent 98.47% of the shares in the Selling Shareholder (the "**Lux Shares**") and give shareholders the right to receive a cumulative dividend on a preference basis equal to 8% and the right to one vote per share. The Lux Ordinary Shares represent the remaining 1.53% of the Lux Shares and grant the right to one vote per share.

The Managers' shareholding in the Selling Shareholder, which is held by each Manager individually, but all held on their behalf by Cordusio Fiduciaria on a fiduciary basis, represents 18.58% of the Lux Ordinary Shares, 3.67% of the Lux Preference Shares and 3.90% of the Lux Shares (and of the voting rights to be exercised within the shareholders' meeting).

Certain Managers have granted, through Cordusio Fiduciaria, a pledge in favor of BFF Lux Holdings over the shares that they subscribed for (equal to 2.10% of the Lux Shares) as security for the repayment of the loan granted by BFF Lux Holdings to them to pay for a portion of the price of the Lux Shares. The loan agreement entered into by BFF Lux (the "**BFF Lux Loan**") has been assigned to BFF Canada on June 21, 2016, as well as the pledge over Lux Shares as a consequence of the status of liquidation of BFF Lux Holding.

The Investment Agreement regulates, *inter alia*, the transfer of Lux Shares and the rights of the Managers as shareholders of the Selling Shareholder and provides that, for the entirety of its term (which shall expire upon the earlier of: (i) 25 years from the signing date and (ii) the date on which the Managers cease to be shareholders):

(i) the Managers, collectively, are entitled to designate, through Cordusio Fiduciaria, a member of the board of directors of the Selling Shareholder;

(ii) no Manager shall be allowed to transfer, allocate or grant a pledge over the Lux Shares or dispose of its shares in any manner, except in the circumstances expressly set out therein including, *inter alia*, the transfer in favor of a relative, spouse, civil partner or offspring of the Manager or the creation of a trust in favor of the Manager and/or in favor of a relative, spouse, civil partner or offspring of the Manager;

(iii) each Manager is entitled to a tag along right in the event of the direct or indirect transfer, in whole or in part, by BFF Canada (formerly BFF Lux Holdings) of its shares to a third party. In such event, the Manager has the right to transfer, as part of the same transaction, a percentage of its Lux Shares (which must be the same class of Lux Shares as those transferred by BFF Lux Holdings) equal to, and in any event no lower than, the percentage of Lux Shares to be sold compared to the total Lux

Shares held by BFF Canada (formerly BFF Lux Holdings), on the same terms and conditions as those agreed between the third party and BFF Canada (formerly BFF Lux Holdings);

(iv) BFF Canada (formerly BFF Lux Holdings) is entitled to a drag along right in the event that it transfers to a third party its controlling stake in the Selling Shareholder or all of its Lux Shares. Pursuant to such drag along right, BFF Canada (formerly BFF Lux Holdings) may force each Manager to transfer to a third party a percentage of its Lux Shares equal to (and in any event no lower than) the percentage of Lux Shares of BFF Lux Holdings to be sold compared to the total Lux Shares held by BFF Canada (formerly BFF Lux Holdings), on the same terms and conditions as those agreed between the third party and BFF (formerly BFF Lux Holdings);

(v) in the event of any transfer (excluding any transfer aimed at the listing or the restructuring of the Company), in whole or in part, of the shares of the Company, BFF Canada (formerly BFF Lux Holdings) should ensure that the proceeds of such transfers are distributed to the shareholders of the Selling Shareholder, or, alternatively, each Manager is entitled to sell to BFF Canada (formerly BFF Lux Holdings) or the Selling Shareholder a percentage of its Lux shares equal to the percentage of shares of the Company to be transferred indirectly held (through the Selling Shareholder) by BFF Canada (formerly BFF Lux Holdings), for a consideration equal to the amount of dividends that such Manager would have been entitled to receive as shareholder of the Selling Shareholder;

(vi) any amount that may be distributed by BFF Luxembourg to its shareholders will be paid according to the following order of priority: (i) first, payment of the cumulative preference dividend on Lux Preference Shares, (ii) second, payment of the nominal value and the share-premium on Lux Preference Shares, and (iii) third, any further proceed will be distributed *pari passu* among the Lux Ordinary Shares' holders;

(vii) bad, good and intermediate leaver clauses attribute, in an event of termination of the ongoing employment relationship between each Manager and the Company (such as lawful dismissal for misconduct, death or illness, termination for reasons other than just cause or retirement), as the case may be, to BFF Canada or to the Manager put and call options concerning the shares of the Selling Shareholder owned by such Manager, for a consideration determined on the basis of the cause of termination of the employment and the moment in which the termination occurs. Under the Investment Agreement, in the event of termination of the ongoing employment relationship, a manager will be considered (i) a good leaver in case of termination as a result of death or serious illness, (ii) a bad leaver in case of termination for just cause or (iii) an intermediate leaver, in all other cases. In any event, regardless of the reason for termination of the employment relationship, BFF Luxembourg will retain an option right (the "**Company Call Option**") on all or any portion of the Lux Shares held by the Manager, to be exercised within six months of termination of the employment relationship, at a price equal to the fair market value of the Lux Shares different from the so-called callable ordinary shares specifically referred to in the Investment Agreement (the "**Callable Shares**"). The option may also be exercised over the Callable Shares at a variable price depending on the reason for termination of the employment relationship; and

(viii) if the Board without the favorable vote of Mr. Belingheri resolves on the acquisition of a company or undertaking not envisaged in the Company's business plan, Mr. Belingheri will be entitled to sell to Centerbridge all of his Lux Shares at market value.

On October 21, 2016, BFF Canada (together with the CB Funds, which at the date of this Offering Circular are minority shareholders of BFF Luxembourg), BFF Luxembourg, the Managers (on an individual basis) and Cordusio Fiduciaria signed an agreement aimed at defining the framework governing the divestment of the Managers from BFF Luxembourg (with the corresponding purchasing of Company Shares) following the listing of the Company (the "**Exit Agreement**"). Specifically, the Exit Agreement-that will have effect if the Company is listed prior December 31, 2017, with corresponding termination of the Investment Agreement—provides that in this case, the following actions shall occur : (a) upon the completion and settlement of the Offering (the "**Exit Agreement Closing Date**"), each owner of Lux Ordinary Shares (with the exception of parties which exclusively own Callable Shares) will exercise a call option already provided in the Investment Agreement with regard to a given number of Callable Shares, equal, in total to a maximum of 107,000 Lux Ordinary shares; (b) on the Exit Agreement Closing Date, following the exercising of the option on the Callable Shares, each Manager will sell, within their respective interest, to BFF Canada, following the release of the existing pledge, all the BFF Luxembourg shares that they own (and, therefore, both the Lux Ordinary Shares and the Lux Preference Shares) (thus, determining a complete exit from the membership structure of BFF Luxembourg), for a consideration that shall be paid by BFF Canada partly in cash and partly in kind through the transfer of a given number of the Company's Shares (the "**Consideration**"). As of the Date of this Offering Circular, it is expected that (i) the percentage of each Manager's stake in our company shall not exceed, on an individual basis, the communication threshold set by Article 120, paragraph 2 of the Consolidated Financial Act (*i.e.* 5% of the corporate share capital) and (ii) the cumulative percentage of the Managers' stake (through Cordusio Fiduciaria) in our company capital shall not be "relevant" for the purposes of the regulatory framework applicable to banks (*i.e.* it shall not exceed on a cumulative basis 10% of our company share capital); (c) the calculation of the Consideration due to each Manager (including the split between the portions to be paid in cash and in kind) will be made on the Exit Agreement Closing Date, applying formulas set out in the Exit Agreement, pursuant to which the amount of the Consideration will depend on, *inter alia*, the date on which the Exit Agreement Closing Date falls, the price per Share that will be offered under the scope of the Company's listing, the number of Shares that will be sold by BFF Luxembourg in connection with the listing of the Company and the cash and cash equivalents of BFF Luxembourg at the Exit Agreement Closing Date; (d) the payment of the Consideration should be made within ten working days from the Exit Agreement Closing Date and, at such time, BFF Canada should both pay to the Managers the related consideration in cash and transfer to them, through Cordusio Fiduciaria (to whom the Shares are registered in trust), the number of the Company's Shares which has been calculated by applying the formulas set out in the Exit Agreement; (e) on the date in which the payment of the Consideration will be made, any Managers who had entered into a loan agreement shall repay it, possibly by requesting to BFF Canada a new loan in order to extinguish the old one (and therefore the amount of the new loan shall not exceed the outstanding debt of the old loan at the time of the repayment); the new loan shall be collateralized by a pledge on a number of the Company's Shares calculated so that the ratio between the value of the existing loan and the value of the Company's Shares pledged (loan to value) is equal to or less than 50%; and (f) by the time when the Company's Shares are transferred to them, the Managers should enter into a lock-up agreement on such shares, under the terms requested by the Joint Global Coordinators for a maximum duration of 12 months; and (g) starting from the Exit Agreement Closing Date, the Investment Agreement will be deemed automatically terminated.

The Exit Agreement will cease to be effective (i) on or about the Exit Agreement Closing Date or (ii) as of December 31, 2017 (unless extended in writing by all the parties thereto), if by that date the Offering has not taken place. It should be noted that following the assignment of shares to the Managers in accordance with the Exit Agreement, BFF Luxembourg will continue to exercise direct control over the Company due to its shareholding of over 50%, pursuant to article 93 of the Consolidated Financial Act.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The following is a description of material transactions currently in force to which we or our subsidiaries have been a party, and in which any of our directors, executive officers or holders of more than 0.5% of our capital stock (or any of such persons' immediate family members) had or will have a direct or indirect material interest, other than compensation arrangements which are otherwise described under "Management". Management believes that all such transactions have been effected at arm's length and upon market terms and rates. For information regarding our policies concerning Related Party Transactions, see "Management—Board Committees and Other Corporate Governance Matters".

You should also see the attached Consolidated Financial Statements and notes thereto, as well as our Carve-out Consolidated Financial Statements and the notes thereto, our Half-year Interim Financial Statements and the notes thereto and our Half-year Interim Financial Statements and the notes thereto appearing elsewhere in this Offering Circular for a discussion of certain intra-group transactions.

Relations with related parties

The following tables provide our transactions with related parties for the years ended December 31, 2016, 2015 and 2014. Since the dates set forth below through the date of this Offering Circular, we have not entered into any related party transaction which might have a material impact on the amounts below.

Statement of financial position

	As of December 31, 2016			
	Loans and receivables to customers	Due to customers	Other assets	Other liabilities
	(in € thousands)			
Related parties				
Parent Company	—	—	11	—
Managers with strategic responsibilities	—	(201)	—	(488)
Total	—	(201)	11	(488)

	As of December 31, 2015			
	Loans and receivables to customers	Due to customers	Other assets	Other liabilities
	(in € thousands)			
Related parties				
Parent Company	—	—	—	—
Managers with strategic responsibilities	—	(401)	—	(398)
Total	—	(401)	—	(398)

	As of December 31, 2014			
	Loans and receivables to customers	Due to customers	Other assets	Other liabilities
	(in € thousands)			
Related parties				
Parent Company	—	—	—	—
Managers with strategic responsibilities	—	—	—	(471)
Total	—	—	—	(471)

Income statement

The tables below set forth the amounts of related party transactions reflected on our income statement for the indicated periods. "Interest income and similar revenues" refers to the interest paid by the Subsidiary under the loan agreements as described above and the "Interest expenses and similar expenses" consists mainly of charges paid by the Company to special purpose vehicles in connection with the securitization transactions carried out by the Group. For the years ended December 31, 2016, 2015 and 2014, this item also refers to the interest paid on "*Conto Facto*" and "*Cuenta Facto*" term deposit accounts established by the Group's Directors on the same terms as those offered to the general public.

	As of December 31, 2016		
	Interest income and similar revenues	Interest expense and similar expenses	Other net operating income
		(in € thousands)	
Related parties			
Parent Company	—	—	11
Managers with strategic responsibilities	—	(6)	—
Total	—	(6)	11

	As of December 31, 2015		
	Interest income and similar revenues	Interest expense and similar expenses	Other net operating income
		(in € thousands)	
Related parties			
Parent Company	—	—	—
Managers with strategic responsibilities	—	(8)	—
Total	—	(8)	—

	As of December 31, 2014		
	Interest income and similar revenues	Interest expense and similar expenses	Other net operating income
		(in € thousands)	
Related parties			
Parent Company	—	—	—
Managers with strategic responsibilities	—	—	—
Total	—	—	—

Key arrangements with related parties

We do not believe that any of our current related party transactions reported in our financial statements are material to our business.

However, in 2015, our Principal Executives entered into a series of transactions with the Selling Shareholder and Centerbridge Partners regarding the management of our business and the investment in our shares. See "*Management—Conflicts of interest*" and "*Principal and Selling Shareholder*" for a more detailed description of such transactions.

Also, for the year ended December 31, 2016, we have a significant outstanding securitization with certain members of the Deutsche Bank Group for a total amount of €85 million. See also "*Risk Factors—Risks Related to Our Business—We may face ongoing liability under our securitization arrangement*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Funding Sources—Securitization transactions*" and "*Risk Management—Securitization transactions*" for a more detailed description of such securitization.

We entered into two service agreements with Farmafactoring España in 2011 and 2015 but we do not believe that either of these agreements are material to our business.

DESCRIPTION OF SHARE CAPITAL

The following is a summary of certain information concerning our shares and certain provisions of our by-laws (statuto) and of Italian law in effect as of the date of this Offering Circular. The information included herein may not contain all of the information which may be relevant to you in deciding whether to invest in our Offer Shares.

General

The Company was incorporated under Italian law on July 22, 1985 as a joint stock company (*società per azioni*). As of the date of this Offering Circular, the Company has an authorized share capital of €137,881,898, €130,982,698 of which has been issued and paid up, represented by 1,701,074 shares without nominal value, of which 1,074 Special Shares without voting rights. The remaining €6,899,200.00 of the authorized share capital may be issued and paid up through the issuance of a maximum of 8,960,000 new shares, in three tranches over a 12 year period starting from December 5, 2016, with exclusion of option rights. The newly issued shares shall be exclusively assigned to the Group's employees, the issue price of which shall be calculated in accordance with the criteria set out in the stock option plan. Therefore, a subscription of all of the newly issued shares (and with regard to all three of the aforementioned tranches) could determine a dilutive effect on the participation held in the Company's capital equal to 5.3%. This would not however have a financial impact as: (i) the option grant the right to subscribe the newly issued ordinary shares for a consideration and, in residual instances, to purchase existing shares, purchased by the Company following the relative authorization granted by the meeting of the shareholders; and (ii) the formula with which the strike price is calculated ensures in general that the exercise of the options allows for an increase in the net equity and own funds of the Company.

The Company has no other class of shares.

The Company's extraordinary shareholders' meeting also specified that (i) if the capital increase is not wholly subscribed to within the final deadline of 12 years after the aforementioned shareholders' meeting, it will remain fixed within the limits of the subscriptions received before that date; and (ii) the Board of Directors has been given greater scope to decide, from time to time, the issue price of the shares (including additional charges). The Board of Directors has also been given the power to decide the other terms and conditions for the execution of the share capital increase, in line with those set out in the stock option plan, as well as adopting the consequent statutory changes in order to increase the share capital following the implementation of the stock option plan.

The Company's By-laws will enter into force on the Trading Date and they provide for the division of the Company's share capital into 170,107,400 ordinary shares without nominal value.

All of the issued and outstanding shares have been validly issued and are fully paid.

Each ordinary share grants its holder with the right to one vote at the Company's ordinary and extraordinary shareholders' meetings, as well as other proprietary and administrative rights in accordance with our By-laws and applicable Italian laws. The Company's ordinary shares are freely transferable, pursuant to applicable Italian laws. The Offer Shares offered in this Offering have been admitted to listing on the MTA.

On May 18, 2016, the Company's extraordinary shareholders' meeting resolved to increase the Company's share capital, in tranches and for a consideration, in connection with the stock option plan for employees and directors of the Company and its subsidiaries up to a maximum €134,750 thousand.

According to the By-laws, the Company's duration is December 31, 2100, unless extended in accordance with applicable Italian laws.

Authorization of Shares

The Company may authorize additional ordinary shares in connection with capital increases approved by shareholders in an extraordinary general meeting. However, such an authorization would generally be given only after recommendation by the Board of Directors.

Limitations on Shareholdings

The transfer of the ordinary shares is not subject to any restrictions other than those provided by the terms of this Offering. See "*Transfer Restrictions*". If a shareholder exercises voting rights attributed by ordinary shares in violation of the By-laws, the relevant resolutions of the shareholders' meeting may be contested if the required majority would not have been reached had it not been for the votes attributed to such ordinary shares. However, the ordinary shares may be taken into account for the purposes of determining whether the shareholders' meeting achieved a quorum.

Form and Transfer of Ordinary Shares

Since January 1, 1999, shareholders are unable to receive physical delivery of share certificates for Italian listed companies. Pursuant to Article 83-*bis* of the Consolidated Financial Act, ordinary shares of companies listed on Italian regulated markets are no longer represented by paper certificates and the transfer and exchange of ordinary shares takes place exclusively in dematerialized form through an electronic book-entry system managed by a centralized securities clearing system, Monte Titoli, having its registered office at Piazza degli Affari, 6, Milan, Italy. Accordingly, all ordinary shares must be deposited by their owners with an authorized financial intermediary institution entitled to hold accounts on behalf of customers with Monte Titoli. The intermediary will in turn deposit the ordinary shares with Monte Titoli or another company authorized by CONSOB to operate a centralized securities clearing system, such as Euroclear or Clearstream, Luxembourg. The following list includes the participants admitted to the book-entry system pursuant to Article 13 of the Regulation of the Bank of Italy and CONSOB of February 22, 2008, as subsequently amended and supplemented by Monte Titoli regulations (the "**Joint Regulation**") (i.e. rules governing central depositories, settlement services, guarantee systems and related management companies):

- Italian banks and EU-based banks provided for under Article 1(2) of the Consolidated Banking Act;
- Italian banks and EU banks, as defined in Article 1(2) of the Consolidated Banking Act;
- SIMs ("*Società di Intermediazione Mobiliare*", i.e. Italian investment firms registered in accordance with the provisions implementing the EU "*MiFID*" Directive) and EU investment firms, as defined in Article 1(1) of the Consolidated Financial Act;
- non-EU banks, as defined in Article 1(2) of the Consolidated Banking Act, authorized to operate in Italy through Italian branches;
- non-EU investment companies, as defined in Article 1(1) of the Consolidated Financial Act, authorized to operate in Italy through Italian branches;
- Italian asset management companies (SGRs, or "*società di gestione del risparmio*"), as defined in Article 1(1)(o) of the Consolidated Financial Act, without prejudice to the provisions on the custody of investment funds' assets by a depositary in accordance with Article 84(2) of the Consolidated Financial Act;
- stockbrokers ("*agenti di cambio*") registered on the national register provided for under Article 201 of the Consolidated Financial Act;
- issuers, as regards the financial instruments issued or allocated by them or by their subsidiaries or affiliates; and
- Poste Italiane S.p.A. (the Italian Postal Service).

In order to transfer an interest in ordinary shares, the transferor and the transferee are required to give instructions to their respective intermediaries. If the transferee is a client of the transferor's intermediary, the intermediary will instruct the centralized securities clearing system to transfer the ordinary shares from the transferor's account to the account of the transferee. If, however, the transferee is a client of another intermediary, the transferor's intermediary will instruct the centralized clearing system to transfer the ordinary shares to the account of the transferee's intermediary, which will then register the ordinary shares on the transferee's account.

Each intermediary maintains a custody account for each of its clients. This account sets out the financial instruments of each client and the records of all transfers, dividend payments, exercising of rights attributable to the financial instruments, charges or other encumbrances on such instruments. The account holder or any other eligible party may submit a request to the intermediary for the issue of a certified account statement. The request must indicate, among other things, the name of the applicant, the quantity of financial instruments in respect of which the statement is requested, the rights which the applicant intends to exercise (in the case of shareholders' rights, the date and agenda of the meetings) and the duration for which the certificate's validity is requested.

Within two business days of the receipt of such request, the intermediary must issue a certified statement of account which consists in proof of the account holder's ownership of the indicated financial instruments. Once a certified statement of account is issued, the intermediary may not transfer the corresponding shares until the statement is no longer valid or it is returned. In the case of rights which may be exercised at shareholders' meetings, the abovementioned certification is replaced by a notice issued by the intermediary to the relevant company.

All of the Company's shares have been deposited with Monte Titoli. Accordingly, it will not be possible for a shareholder to obtain physical delivery of share certificates representing shares. Instead, transfers of shares will be possible using the procedures described above.

In order to exercise their rights as shareholders, shareholders must rely on the Monte Titoli procedures, and of the intermediaries or participants that have accounts with Monte Titoli.

Italian law does not require joint stock companies to set forth the par value of their shares in the by-laws nor does it require a specific indication of the par value on the stock certificate itself. Shares with no par value may allow greater flexibility in structuring a company's share capital and in setting the purchase price for the issuance of new shares. Pursuant to Article 2346, paragraph 3, of the Italian Civil Code, the nominal value of no-par value shares is calculated by dividing the aggregate Euro amount of the issued share capital by the number of shares outstanding at the time.

Shareholders' Meetings

General

Italian legislation regarding shareholders' meetings and minority shareholders' rights was amended by Italian Legislative Decree No. 27 of January 27, 2010, which implements EU Directive No. 2007/36/EC on shareholders' rights and introduces rules relating to, among other things, the record date, the calling and functioning of shareholders' meetings, proxy voting and information rights that are aimed at enhancing shareholders' rights and participation in shareholders' meetings. EU Directive No. 2007/36/EC has been further implemented by Legislative Decree No. 91 of June 18, 2012 (the "**Legislative Decree 91**"), effective as of July 17, 2012. Legislative Decree 91 provided for the following changes, among others, regarding all shareholders' meetings convened after January 1, 2013: (i) unless otherwise provided in the company's by-laws, shareholders' meetings shall be convened on single call; (ii) for purposes of setting the record date, the applicable date will be the date of the first call if the dates of any subsequent calls are indicated in the notice for the first call, otherwise the date of each call shall be considered; and (iii) notice of shareholders' meeting shall be published on the Company's website and in accordance with CONSOB's requirements, including, but not limited to, publication in national daily newspapers in abstract form.

Pursuant to Article 9 of the By-laws, the ordinary and extraordinary shareholders' meetings are convened every time they are required or deemed appropriate by the Board of Directors or when it is legally required under applicable laws and regulations in force from time to time. The ordinary shareholders' meeting must be convened at least once a year within 120 days from the end of the financial year (in certain instances provided under the applicable legal framework, within 180 days). Unless otherwise stated in the notice of meeting, the shareholders' meeting is held on single call. The Company's shareholders' meetings may be held in the municipality where the Company's registered office is located or in any other place specified in the notice of meeting, assuming the location is in Italy.

Pursuant to Article 83—*sexies*(2) of the Consolidated Financial Act, all persons for which the Company has received a notice from an intermediary, on the basis of the intermediary's accounting records at the closing of business on the seventh trading day prior to the date of the meeting on first or single call (the so-called "*record date*"), shall be entitled to attend shareholders' meetings. Such persons may attend the meeting and vote even if they transfer their shares after the record date. Conversely, the purchaser of the shares after the record date will not be entitled to attend the meeting. However, the purchaser is entitled to challenge the shareholders' meeting resolutions or to exercise withdrawal rights, where applicable. If the notice of meeting so states, the holders of voting rights can participate in the shareholders' meeting remotely and exercise their voting rights using electronic means, in accordance with the conditions set forth in the notice.

Shareholders may attend shareholders' meetings in person or, subject to the proxy rules of the Consolidated Financial Act, by proxy. A proxy may be given in writing or electronically to any person or entity subject to Articles 135-*novies* and 135-*decies* of the Consolidated Financial Act.

Article 11 of the By-laws allows for the shareholders to be represented through a proxy to be granted in accordance with provisions of applicable Italian law. Pursuant to Article 11(5) of the By-laws, the Company may appoint one or more representatives for each meeting (*rappresentante designato dalla società*) to whom shareholders can grant a proxy.

Further, pursuant to the Consolidated Financial Act, one or more promoters may solicit proxies to more than 200 shareholders *provided that* a prospectus and a proxy form are published (rules on proxy solicitation do not apply to solicitations addressed to no more than 200 shareholders, *provided that* no indications are given that may influence the voting process). General rules on proxy solicitation (including the obligation to publish a prospectus) do not apply to the solicitation carried out by shareholders' associations meeting the requirements set forth under Article 141 of the Consolidated Financial Act.

Under Italian law, shareholders' meetings, which may be either ordinary or extraordinary, are normally held on single call but the board of directors can establish that the shareholders' meeting will be held in more than one call. Meetings are called by the Board of Directors when required or deemed appropriate. The majorities set forth by applicable law apply. The Company's shareholders' meetings must be called in accordance with one of the following procedures: (i) without delay following a request by holders of at least 5% of the Company's share capital; (ii) by the Board of Directors, or by any director for matters within his or her competence, at least once a year, no later than 120 or, in certain circumstances provided under Article 2364 of the Italian Civil Code, 180 days after the end of the financial year, to approve its annual financial statements or in the event that the share capital is decreased by more than one third due to losses or should it fall below the minimum legal requirements; (iii) by the Board of Statutory Auditors or by at least two of its members, in compliance with Article 151 of the Consolidated Financial Act; (iv) by the Board of Statutory Auditors or by the court having jurisdiction if the Board of Directors or the Board of Statutory Auditors, respectively, has breached its fiduciary duties to the Company's shareholders or has not called the meeting in accordance with provisions of Italian law; or (v) by the Board of Statutory Auditors in the event of an unjustified delay or the Board of Directors failure to call a meeting. Following an appeal by the shareholders who have requested to convene the shareholders' meeting and upon consultation with the Board of Directors and the Board of Statutory Auditors, the court may order that such meeting be convened, and shall appoint the person who will act as the Chairman of the meeting.

Shareholders are informed of all shareholders' meetings to be held by publication of a notice on the Company's website and in accordance with CONSOB's requirements, at least 30 days before the date scheduled for the meeting or as provided under any applicable regulations. The required notice period is reduced to 21 days for meetings relating to the reduction of share capital due to losses or below the statutory minimum requirement, as well as for meetings concerning the termination and voluntary winding up of the business. The notice period is shortened to 15 days for meetings convened pending a public tender offer for the Company's shares. The notice period is increased to 40 days for meetings called for the election of the Board of Directors or the Board of Statutory Auditors.

However, as a general rule, even if the formalities and requirements to call a meeting are not properly met, a meeting will be deemed duly held if 100% of the share capital is represented and the majority of directors and statutory auditors attend the meeting. Persons attending, however, may object to the discussion of matters on which they have not been adequately and previously informed.

The Company's directors are required to make available to the public, at the Company's registered office and on its website, in accordance with CONSOB's requirements, a report on the proposals relating to the matters on the agenda of a shareholders' meeting no later than the term of publication of the notice of the meeting is published on the Company's website or as provided under any applicable regulations.

Shareholders are entitled to ask questions regarding the items on the agenda before the date of the meeting, which the Company is required to answer either prior to or during the shareholders' meeting, and also by way of a Q&A section posted on its website.

Pursuant to the Consolidated Financial Act, shareholders who, individually or jointly, represent at least 2.5% of the share capital may request, within ten days of the publication of the notice convening the meeting (such term is reduced to five days in relation to certain specific meetings), additions to the list of items on the agenda, specifying in the request the additional items they propose, or propose different resolutions in relation to items that are already included in the agenda. Such additions to the agenda may not be made for matters on which the shareholders' meeting is required by law to resolve on proposals put forward by the directors or on the basis of a plan or report prepared by the directors. The requesting shareholders must prepare a report on, as the case may be, the items they have proposed to include in the agenda or the different resolution they may have proposed to adopt.

Resolutions adopted at a shareholders' meeting are binding on all shareholders, including dissenting or absent shareholders. However, pursuant to Italian law, absent, abstaining or dissenting shareholders, who hold, individually or jointly, shares with voting rights in relation to the adopted resolution, and who represent 0.1% of the Company's share capital, have the right to ask the court where the Company's registered office is located to void resolutions taken in violation of applicable laws or the By-laws. All directors and statutory auditors are also entitled to challenge resolutions on the same grounds. Such challenges must be made within 90 days from the date of the resolution or, if the resolution is required to be registered in the register of enterprises, within 90 days of registration.

In addition, if shareholders' resolutions are passed without any call of a meeting, without recording the minutes thereof or in respect of any illegal matter or with respect to which no resolution may be passed, such resolutions may be challenged by any interested party within three years from the date of the registration or filing of the resolution in the companies' register or, if the resolution is not subject to registration or filing with the companies' register, within three years from the date of the registration of the resolution in the companies' register or, if the resolution is not subject to registration, within three years from the registration of the minutes in the relevant corporate book. In addition, shareholders' resolutions which modify the corporate purpose to include impossible or illegal activities may be challenged without any time limit.

Furthermore, in a limited number of circumstances, applicable laws grant dissenting, absent and abstaining shareholders the right to withdraw from the Company. See "*Description of Share Capital—Withdrawal Rights*". Such a withdrawal could require the Company to redeem the shares of the withholding shareholder at the average of the closing market price of the shares over the previous six-month period. Redemption may be accomplished by utilizing the Company's available reserves or, alternatively, by a reduction of its share capital.

There are no restrictions arising under Italian law or the By-laws on the rights of non-resident or foreign persons to hold or vote the shares other than those limitations that apply generally to all shareholders. See "*—Description of Share Capital—Limitations on Shareholdings*".

Shareholders are entitled to attend and vote at ordinary and extraordinary shareholders' meetings. Each shareholder will be entitled to cast one vote for each ordinary share held. Votes may be cast personally or by proxy (as described above).

Ordinary Shareholders' Meetings

Ordinary shareholders' meetings must be convened at least once a year for the approval of the Company's annual stand-alone financial statements. Article 9 of the By-laws requires that an ordinary shareholders' meeting must be called within 120 days of the end of the financial year. Matters requiring ordinary shareholders' meetings approval include dividend payments or other distributions, appointment or removal of directors, statutory auditors and external auditors and decision of their remuneration, matters involving directors' and statutory auditors' liability, regulation for shareholders' meetings and other business matters submitted to the vote of the shareholders under applicable law and the By-laws.

There is no quorum requirement for a valid shareholders' decision at an ordinary meeting on single call and resolutions are taken with the affirmative vote of the majority of the shares represented at the meeting.

An ordinary shareholders' meeting can be also convened on first call if the Board of Directors so decides. In such case, the shareholders' meeting is validly held if at least 50% of the voting share capital is represented (in person or by proxy). Resolutions at the ordinary meeting on first call are taken with the affirmative vote of holders of the majority of the shares represented at such meeting. There is no quorum requirement on the second or any other subsequent call for a valid shareholders' decision and resolution to be taken with the affirmative vote of the majority of the Shares represented at the meeting.

Extraordinary Shareholders' Meetings

Extraordinary shareholders' meetings may be called to resolve upon, among other things, proposed amendments to the By-laws, mergers and demergers (except for certain intercompany mergers and demergers, which may be approved by Board of Directors), spin-offs, capital increases and reductions (except for reductions following the exercise of withdrawal rights by one or more shareholders, which may be approved by Board of Directors), dissolution, the appointment, replacement and powers of liquidators.

Pursuant to Italian law, an extraordinary shareholders' meeting is validly held on single call if more than one-fifth of the voting share capital is represented (in person or by proxy). Resolutions at the extraordinary meeting on single call are taken with the affirmative vote of holders of at least two-thirds of the shares represented at such meeting.

An extraordinary shareholders' meeting can be also convened on first call, if the Board of Directors so decides. In such case, the shareholders' meeting is validly held if at least 50% of the voting share capital is represented (in person or by proxy). Resolutions at the extraordinary meeting on first call are taken with the affirmative vote of holders of at least two-thirds of the shares represented at such meeting.

The quorum required for a valid shareholders' decision at an extraordinary shareholders' meeting on second call is more than one-third of the voting share capital, while on the third and any other subsequent call the quorum must be at least one-fifth. Resolutions at the extraordinary shareholders' meeting on second or subsequent calls are taken with the affirmative vote of at least two-thirds of the shares represented at such meeting.

Pre-emptive Rights

New issuances of shares or other classes of shares may be authorized by a shareholders' resolution passed at an extraordinary shareholders' meeting. The extraordinary shareholders' meeting may also authorize the Board of Directors to increase the share capital within a five-year period, pursuant to Article 2443 of the Italian Civil Code. Pursuant to Italian law, shareholders (and holders of convertible bonds, if any) are entitled to subscribe for new issues of: (i) shares; (ii) debt instruments convertible into shares; and (iii) any other instruments, such as warrants, rights or options entitling the holder to acquire shares, in each case in proportion to their respective shareholdings or bondholdings, as the case may be.

Subject to certain conditions mainly designed to prevent dilution of the rights of shareholders, pursuant to Article 2441 of the Italian Civil Code, these pre-emptive rights may be waived or limited in whole or in part for all such shareholders in relation to any particular issue of such securities, but only by resolution adopted at an extraordinary meeting and *provided that*: (i) the increase in share capital is to be paid by way of a contribution in kind or (ii) the Company's interest so requires, or (iii) the newly issued shares are offered for subscription to the Company's employees or employees of its subsidiaries or of its parent company. Pursuant to Italian law, in these cases resolutions that exclude pre-emptive rights in favor of the above-mentioned employees must be adopted at an extraordinary meeting with the required majorities voting for such resolution.

Furthermore, in listed companies pre-emptive rights may be excluded up to a maximum of 10% of the outstanding share capital of the Company, *provided that* the price for newly issued shares corresponds to the market price of the issued and outstanding shares and this circumstance is certified by a report of the Company's external auditors.

The Board of Directors and the Board of Statutory Auditors

The Company's corporate governance and control system is the so-called "traditional model" provided for by Articles 2380-*bis* et seq. of the Italian Civil Code, composed of a Board of Directors and a Board of Statutory Auditors. The following is a discussion concerning the main provisions of the By-laws regarding the composition of such boards.

Board of Directors

Pursuant to Article 14 of the By-laws, the Company is managed by a Board of Directors composed of a minimum of five members and a maximum of 13 members. A minimum number of directors must satisfy the independence requirements set forth by Article 148(3) of the Consolidated Financial Act.

If a director no longer meets said independence requirements, the Board of Directors shall declare the appointment void unless the incompatibility is cured within the date identified by the Board of Directors.

Pursuant to Article 15 of the By-laws, the Board of Directors is appointed on the basis of lists submitted by shareholders, according to the procedures specified below.

Each shareholder may present or participate in the presentation of only one list and each candidate may appear on only one list otherwise he or she may no longer be elected. Lists that contain a number of candidates greater than or equal to three must ensure that both genders are duly represented, consistent with the requirement that candidates of the less represented gender are equal in proportion to the percentage identified in the notice convening the meeting, rounding any fractions up to the nearest whole number.

Lists may be submitted only by shareholders who either alone or together with other shareholders hold a total number of shares representing at least 2.5% of the share capital or the amount otherwise established by CONSOB regulations.

In addition to any further documentation required by applicable laws and regulations, each list must be timely submitted together with: (i) information relating to the identity of the submitting shareholders, including the relevant shareholding, (ii) individual candidates' acceptance of their candidacy, and (iii) declarations in which they attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet the requirements, set forth under the applicable legal and regulatory framework, as well as under the By-laws. Together with the declarations, a *curriculum vitae* for each candidate must be submitted. Lists which do not satisfy these requirements shall be deemed as not presented. Any changes that occur up to the day the shareholders' meeting is held must be promptly notified to the Company. Each person entitled to vote may vote for one list only.

The Board of Directors shall be elected as specified below:

- a number equal to the number of members of the Board of Directors, less one, is taken, in progressive order, from the candidates present on the list that has obtained the highest number of votes (the "**Majority List**"), who are thereby appointed as directors;
- the candidate at the top of the list that has obtained the second highest number of votes (the "**Minority List**") and has no direct or indirect connection with the persons who submitted or voted the Majority List, is appointed as a director;

If the composition of the resulting board does not reflect the minimum number of required independent directors, the non-independent elected candidate with the highest progressive number of the Majority List is replaced with the non-elected independent candidate taken from the same list in progressive order and so on, for each list, until the minimum number of independent directors is elected.

If the composition of the resulting board does not reflect gender balance, taking into account their ranking order in the respective sections, the last candidate of the more represented gender elected from the Majority List shall forfeit its position to ensure compliance with this requirement, and shall be replaced by the first unelected candidate of the less represented gender taken from the same list in progressive order and so on, for each list, until the minimum number of directors of the less represented gender is elected.

With respect to the appointment of directors who for any reason have not been appointed pursuant to the procedure specified above, the shareholders' meeting shall vote on the basis of the majorities required by law, ensuring that the requirements provided by law and by the By-laws regarding the composition of the board are complied with. If in the course of the financial year one or more vacancies occur on the Board of Directors, the procedure specified in Article 2386 of the Italian Civil Code shall be followed.

Pursuant to Article 21 of the By-laws, the directors shall be entitled to be reimbursed of expenses incurred during the carrying out of their duties. The ordinary shareholders' meeting can also resolve on the annual remuneration payable to the Board of Directors, as well as determine a total amount of remuneration for all directors. Once set, this remuneration shall remain unchanged until a different amount is established by the ordinary shareholders' meeting. The remuneration of directors vested with special duties is determined by the Board of Directors, after consultation with the Board of Statutory Auditors.

Pursuant to Article 15 of the By-laws, the Board of Directors shall elect a Chairman among its non-executive and independent members-if the shareholders' meeting has not already done so-and may also appoint one or more Vice Chairmen. If the Chairman is absent or unable to act, the senior Vice Chairman by age or, if the latter is absent or unable to act, the other Vice Chairman, if appointed, or, if the latter is absent or unable to act, the director with the highest number of consecutive terms of office, shall take her/his place. The Board of Directors may elect a Secretary who need not be a director.

Pursuant to Article 18 of the By-laws, the Board of Directors shall be responsible for running the Company, since all matters not expressly reserved to the shareholders' meeting by law or the By-laws are within its jurisdiction. Subject to applicable legislative and statutory limitations, the Board of Directors shall be entrusted with deciding on, among the others (i) the merger by incorporation of companies whose shares or stakes are owned entirely by the Company; (ii) the merger by incorporation of companies whose shares or stakes are at least 90% (ninety per cent) owned by the Company; (iii) the proportional de-merger of companies whose shares or stakes are entirely or at least 90% (ninety per cent) owned by the Company; (iv) the transfer of the Company's headquarters within Italy; (v) the amendments to the By-laws to comply with new regulatory provisions; (vi) the share capital decreases in case of shareholder's withdrawals.

To implement its own resolutions and manage the Company, the Board of Directors, subject to the limits provided for by law, may:

- establish an Executive Committee, establishing its powers and the number of members;
- delegate suitable powers, establishing the limits thereof, to one or more directors, possibly with the title of Chief Executive Officer;
- appoint a General Manager, establishing its powers and duties; and
- appoint attorneys, who may be members of the Board of Directors, for specific transactions and for a limited period of time.

The Board of Directors may set up Committees from among its members charged with giving advice and making proposals and shall establish their powers and duties.

Pursuant to Article 18 of the By-laws, the Board of Directors shall appoint the manager responsible for preparing the Company's financial reports after the prior approval of the Board of Statutory Auditors. The manager responsible for preparing the Company's financial reports must be appointed from among the executives of the Company and must be an expert in the fields of administration, finance and control and satisfy the integrity requirements provided for directors. Subsequent failure to satisfy these requirements shall entail disqualification from the relative position, which must be announced by the Board of Directors within thirty days from the date on which the non-compliance was acknowledged.

Pursuant to Article 17 of the By-laws, the Board of Directors is convened at the Company's registered office or elsewhere if necessary, ordinarily once every month, by the Chairman or whenever he or she receives a reasoned request in such regard, with the indication of the matters to be discussed, from at least two directors holding office. The Board of Directors may also be convened by the Board of Statutory Auditors, or individually by one member of the Board of Statutory Auditors, with previous written notice to the Chairman of the Board of Directors. The Chairman determines the agenda and coordinates the Board meetings. The Chairman shall give prior notice of the matters to be discussed in Board meetings and arrange for all Directors to be provided with adequate information concerning the questions to be taken into consideration, taking account of the circumstances of each case. Meetings shall be called, using suitable means in relation to the notice to be given, normally at least 5 (five) days prior to the date thereof, except in urgent cases, when at least a 24 (twenty-four) hours' notice must in any case be given. Notice shall be given to the Statutory Auditors within the same time limits. The Board of Directors shall be considered to be regularly convened, in the absence of a formal notice, if all the directors holding office and the majority of the standing statutory auditors are present. Participation in Board meetings may be-if the Chairman or his or her substitute verifies the necessity-by means of telecommunication that permit participation in the discussion and informational equality for all those taking part.

Pursuant to Article 17 of the By-laws, the presence of a majority of directors in office and the affirmative vote of more than half of the attending directors is necessary for the validity of resolution of the Board of Directors. In case of an equal number of votes, the Chairman has the casting vote.

The representation of the Company *vis-à-vis* third parties and in legal proceedings shall pertain to the Chairman, as well as to the Chief Executive Officer and to the General Manager, if appointed, within the limits of the relevant powers of attorney.

Board of Statutory Auditors

Pursuant to Article 22 of the By-laws, the Board of Statutory Auditors consists of three standing auditors, including at least one from the less represented gender. The shareholders' meeting shall also appoint two alternate auditors.

For the purposes of Article 1(3) of the regulation referred to in Justice Minister Decree 162 of March 30, 2000, the activity and matters closely linked to those carried out by the Company shall be deemed comprised within the activity and matters carried out by the Company.

The appointment of the Board of Statutory Auditors shall be carried out in compliance with the applicable laws and regulations on the basis of lists presented by the shareholders.

Each shareholder may present or participate in the presentation of only one list and each candidate may appear on only one list otherwise she/he may no longer be elected. Lists may be submitted only by shareholders who alone or together with other shareholders hold a total number of shares representing at least 1% of the share capital or the share capital CONSOB regulation requires.

In addition to any further document required by applicable laws and regulations, each list must be timely submitted together with (i) information relating to the identity of the submitting shareholders, including the relevant shareholding, (ii) the individual candidates' acceptance of their candidacy and (iii)declarations in which they attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet the requirements set forth under the applicable laws and regulations as well as the By-laws. Together with the declarations, a *curriculum vitae* for each candidate shall be filed. Lists which do not satisfy these requirements shall be deemed as not presented. Any changes that occur up to the day the shareholders' meeting is held must be promptly notified to the Company. Each person entitled to vote may vote for one list only.

The lists shall be divided into two sections: one for candidates to the position of standing auditor and the other for candidates to the position of alternate auditor. Lists which in one or both sections contain a number of candidates equal to, or higher than, three must ensure the presence of both genders in said sections, so that candidates of the less represented gender are at least one third of the total, rounding any fractions up to the next whole number.

The Board of Statutory Auditors shall be elected as specified below:

(1) from the list that obtains the majority of the votes (the "**Auditors Majority List**") two standing and two alternate auditors shall be chosen in the order in which they are listed; or

(2) the remaining standing auditor and alternate auditor shall be chosen from the minority list that obtained the highest number of votes and has no direct or indirect connection with the persons who submitted or voted the Auditors Majority List (the "**Auditors Minority List**").

The shareholders' meeting appoints as Chairman of the Board of Statutory Auditors the standing auditor elected from the Auditors Minority List.

If the composition of the resulting board or category of alternate auditors, taken separately, does not reflect the gender balance, taking into account their ranking order in the respective sections, the last candidate of the more represented gender elected from the Auditors Majority List shall forfeit its position to ensure compliance with this requirement, and shall be replaced by the first unelected candidate of the less represented gender in the relevant section of the Auditors Majority List. In the absence of candidates of the less represented gender in the relevant section of the Auditors Majority List, the shareholders' meeting shall appoint the missing standing or alternate auditor with the majorities required by law, ensuring that the requirement is met.

In the event of the termination of office of the statutory auditor appointed from the Auditors Majority List, this will be succeeded by the alternate auditor chosen from the Auditors Majority List; in the event of the termination of office of the statutory auditor appointed from another list, this will be succeeded by an alternate auditor appointed from such list.

If it is not possible to proceed with the appointments to fill vacancies on the Board of Statutory Auditors pursuant to the provisions set forth in the By-laws, such appointments shall be approved by the shareholders' meeting with the affirmative vote of the relative majority of those voting and in compliance with the requirements of the By-laws regarding gender balance.

With respect to the appointment of auditors who for any reason have not been appointed pursuant to the procedure specified in the By-laws, the shareholders' meeting shall vote on the basis of the majorities required by law, ensuring compliance with the requirements of the law and the By-laws regarding the composition of the board and the category of alternate auditors.

Subject to notice to the Chairman of the Board of Statutory Auditors, the Board of Statutory Auditors may call, as provided for by law, a shareholders' meeting or a meeting of the Board of Directors or the Executive Committee. This power to call meetings may be exercised individually by each statutory auditor, except for the power to call a shareholders' meeting, which must be exercised by at least two statutory auditors.

Participation in the meetings of the Board of Statutory Auditors may-if the Chairman verifies the necessity-be by means of telecommunication that permit participation in the discussion and informational equality for all those taking part.

Dividend Rights

Any annual dividend must first be proposed by the Board of Directors and is then subject to shareholder approval at the relevant annual shareholders' meeting. Pursuant to Italian law, before paying dividends, 5% of the net profit (on an unconsolidated basis) for each year must be set aside in a statutory reserve fund (*riserva legale*). This requirement ceases if this reserve fund, including amounts set aside during prior years, reaches, or is maintained at, 20% of the aggregate par value of a company's share capital. For additional information on dividends on shares, see "*Dividends and Dividend Policy*".

Dividends are payable to shareholders holding shares through an intermediary on the dividend payment date declared at the shareholders' meeting. Dividend payments are distributed through Monte Titoli or such other authorized centralized custody and administration systems on behalf of each shareholder by the intermediary with whom the shareholder has deposited its shares.

Generally, save for certain exclusions and exceptions provided by law, all dividends payable to non-residents of Italy who do not have a permanent establishment in Italy to which their shareholding is connected are subject to an Italian withholding tax of 26.0%, which may be reduced by applicable tax treaties or conventions. For information on the taxation of dividends payable to non-residents of Italy, see "*Dividends and Dividend Policy*" and "*Taxation—Italian Taxation*". Italian regulations do not contain any specific restrictions on the payment of dividends to non-residents of Italy.

Liquidation Rights

Under Italian law, and subject to satisfaction of the claims of all other creditors, upon winding-up of the Company shareholders are entitled to a distribution of its remaining liquidated assets in proportion to the shares they hold in the Company's share capital. Shareholders of savings, or preferred shares if such shares were to be issued by the Company, take priority in such distribution up to the nominal value of such shares. Thereafter, if there were surplus assets, holders of shares and saving or preferred shares would rank equally in their claims to the distribution of such surplus assets.

Purchase by the Company of its own shares

As of the date of this Offering Circular, the Company does not hold any of its own shares. The Company may purchase its own shares, subject to certain conditions and limitations imposed by Italian law and *provided that* such shares are paid in full. Such purchases must be authorized by the Company's shareholders at ordinary meeting and subject to certain exceptions, may not exceed the amount of retained earnings or distributable reserves resulting from the last approved separate financial statements. The par value of shares to be repurchased, together with any shares previously owned by the Company or any of its subsidiaries, may not exceed, except in limited circumstances, in the aggregate, 20% of its issued and outstanding share capital.

Repurchased shares in excess of such 20% limit must be resold within one year from the date of purchase or must otherwise be cancelled, and the share capital reduced accordingly. Similar requirements and limitations apply with respect to purchases of the Company's shares by its subsidiaries.

As provided by Articles 2357-*ter et seq.* of the Italian Civil Code, shares purchased and held by the Company may only be resold pursuant to a shareholders' resolution. The Company is not entitled to vote or to receive dividends on the shares it owns. Neither the Company (except in limited circumstances) nor any of its subsidiaries can subscribe for new shares in the case of capital increases. Shares owned by the Company's subsidiaries do not carry voting rights but they do carry the right to receive dividends. Shares owned by the Company and its subsidiaries count at shareholders' meetings for quorum purposes. If the Company purchases its own shares, it must create a corresponding reserve in its balance sheet equal to the purchase price of the shares. This reserve will not be available for distribution, unless the shares are resold to third parties or cancelled. Moreover, Article 132 of the Consolidated Financial Act as implemented by CONSOB provides that the purchase by a company listed in Italy of its own shares and the purchase of shares of a listed company by its subsidiaries must take place in a manner that ensures the equal treatment of its shareholders (i) by way of a tender offer, (ii) on regulated markets *provided that* market operating rules do not permit the direct matching of buy orders with predetermined sell orders, (iii) by means of the purchase and sale of derivative instruments traded on regulated markets *provided that* the market operating rules set forth certain conditions or (iv) by granting shareholders, in relation to the shares they hold, a put option to be exercised within a period established by the shareholders' meeting that authorized the share purchase program.

Subject to certain limitations, the foregoing does not apply to shares purchased by the Company from its employees or employees of its subsidiaries or of its parent companies.

Company and Shareholders' Actions against the Board of Directors

Pursuant to Article 2393 of the Italian Civil Code, actions against members of the Board of Directors may be brought by a company within five years of the termination of their office, pursuant to a resolution adopted by the ordinary shareholders' meeting or pursuant to a resolution adopted by the Board of Statutory Auditors and approved by two-thirds of its members. In addition, pursuant to Article 2393-*bis* of the Italian Civil Code, in the case of listed companies, a shareholders' action may be brought against the Board of Directors by shareholders representing at least 2.5% of the share capital. See: "*Taxation—Minority Shareholders' Rights*".

Notification of Acquisition of Ordinary Shares

The By-laws do not provide for a mandatory notification to the public when a shareholder increases its shareholdings.

However, any person whose aggregate shareholding in a listed company rises above or falls below 3% (if the company is not a small and medium sized enterprise ("**SMEs**") pursuant to Article 1(1)(w—*quarter*) of the Consolidated Financial Act), or reaches, rises above or falls below 5%, 10%, 15%, 20%, 25%, 30%, 50%, 66.6%, 90% or 95% of the share capital of a company listed in Italy, is mandated to notify CONSOB and the listed company within five business days of the transaction giving rise to the relevant obligation.

Those communication requirements also apply to any person who reaches, rises above or falls below 5%, 10%, 15%, 20%, 25%, 30%, 50%, 66.6%, 90% or 95%, as a result of events which leads to changes in the share capital and on the basis of the information published by the issuer of shares pursuant to Article 85—*bis* of the Issuers' Regulation.

Notification requirements also arise if the foregoing thresholds are violated as a result of a reduction of, or increase in, the company's share capital. For the purpose of calculating the ownership thresholds, shares owned by any person, irrespective of whether the voting rights are suspended, or exercisable by that person or by a third party, are taken into consideration. Shares in respect of which the relevant person is entitled to exercise voting rights are also included. Except in certain circumstances, shares held through, or shares for which voting rights may be exercised by, subsidiaries, fiduciaries or intermediaries are included.

Shareholders failing to give appropriate notice of acquisition of shares cannot exercise the voting rights pertaining to the shares. Any shareholders' resolution approved in violation of the foregoing may be annulled if it would not have been adopted in the absence of such votes (including on the basis of an action brought by CONSOB).

The Issuers' Regulation also provides that any person holding less than 3% of the voting share capital of a listed company is subject to a notification obligation when such person is party to a shareholders' agreement and, taking into account the holdings of the other parties to such agreement, reaches, exceeds or falls below the 5%, 10%, 15%, 20%, 25%, 30%, 50% and 66.6% thresholds. Such person must disclose to CONSOB and the listed company in question:

(i) the overall number of shares subject to the agreement;

(ii) the number of shares directly or indirectly held that are subject to the agreement; and

(iii) the number of shares directly or indirectly held that are not subject to the agreement.

However, no notice is required if this information has already been given in compliance with other provisions of the Consolidated Financial Act or the Issuers' Regulation.

Notification obligations are also triggered with respect to the direct or indirect holding of:

(i) financial instruments or contracts which, pursuant to a binding agreement, confer the right to acquire, at the holder's own initiative, ordinary shares of a listed company ("**Potential Holdings**"). In particular, any person holding such financial instruments, must disclose them to the relevant company and CONSOB when the Potential Holdings reach, exceed or fall below 5%, 10%, 15%, 20%, 25%, 30%, 50%, or 75%;

(ii) the aggregated amount (the "**Aggregated Long Position**") of shares of a listed company, plus the Potential Holdings and other long positions ("**Other Long Positions**") consisting in shares underlying financial instruments or contracts different from the Potential Holdings, which, pursuant to a binding agreement, confer the right to acquire economic interests positively correlated to the fluctuations of such underlying shares, being included hereof the position of the counterparty of a short position; the latter meaning the holding of financial positions negatively correlated to the fluctuations of the underlying shares ("**Short Positions**"). Any person holding an Aggregated Long Position must disclose it to the company and CONSOB when it reaches, exceeds or falls below 5%, 10%, 20%, 30% and 50%. Shares that may be purchased by exercising warrants or other conversion rights are taken into account for determining Aggregated Long Positions only if the purchase can take place within 60 days.

Netting of either the Potential Holdings or the Aggregated Long Position against the Short Positions is not allowed.

When a notification obligation concerning the same material holding applies to both a controlling company and its subsidiary, the latter is exempted from the obligation. Nonetheless, the disclosure obligation can be satisfied by the subsidiary if it provides complete information on the chain of control, including with reference to other shareholdings, directly or indirectly, held by the controlling entity.

Notification obligations are not triggered when:

- shares are purchased exclusively for clearing and settlement purposes, within a settlement cycle not exceeding three trading days or shares are purchased by central counterparties with respect to the shares covered by the transactions they guarantee and subject to enforcement procedures, within the time limits required for the completion of these procedures;
- shares are held by depositaries, if voting rights can be exercised only on the basis of written or electronic instructions given by the holders of the shares;
- shares and Potential Holdings below the 10% threshold are purchased or sold by a market maker and certain further conditions are met;
- shares purchased below the threshold of 5% are purchased by qualified investors, *provided that*: (i) the shares were purchased in the context of a public offering, or after the closing of such an offering, by the underwriters which entered into stand-by or firm underwriting arrangements with the issuer; (ii) the voting rights related to shares purchased are not exercised or otherwise used, even by borrowing, to take part in the management of the issuer; and (iii) qualified investors undertake to sell the shares within 18 months from date of purchase;
- shares are purchased or sold by the European Central Bank or by Central Banks of EU Member States, in the exercise of their monetary functions *provided that* the relevant transactions may be qualified as short-term and the related voting rights are not exercised; or
- under certain circumstances, holdings not exceeding 5% but higher than 2% are acquired (i) by Italian and harmonized asset management companies (within the course of managing harmonized or alternative investment funds or (ii) by non-EU management companies for which a license under the Undertakings for Collective Investment in Transferable Securities ("**UCITS**") and the Alternative Investment Fund Managers ("**AIFM**") Directives would be required if they had their registered or administrative offices in any of the EU Countries, *provided that* they are subject in their home country to supervision by a public authority.

The voting rights pertaining to shares held by credit institutions and investment companies in their trading portfolios, as defined in Article 11 of Directive No. 2006/49/EC, are not counted in relation to the notification thresholds as long as: (i) such voting rights do not exceed 5%, and (ii) the credit institution or the investment company ensures that voting rights are not exercised or otherwise used to influence the management of the listed company.

Finally, in light of their business activities, specific rules apply to the notification of holdings of management companies and financial intermediaries authorized for asset management. In particular, an entity controlling a management company is not required to accrue its direct or indirect holdings-effective or potential-to the holdings of the management company, *provided that* the management company votes the shares held in its portfolio independently from the controlling entity and other controlled entities. The same rules apply to any entity controlling one or more financial intermediaries authorized for asset management, with regard to the holdings of the financial intermediary, if the latter votes the shares independently and on the basis of clients' written or electronic instructions.

An entity controlling one or more management companies or one or more financial intermediaries must, without delay, provide CONSOB with a list of its controlled management companies or financial intermediaries and a declaration certifying that the holdings of such controlled management companies or financial intermediaries are voted independently. CONSOB can request the controlling entity to provide further information and specific documents.

See also "*Supervision and Regulation—Italy—Acquisition of relevant shareholdings in banks*".

Cross-Ownership Restrictions

Cross-ownership restrictions limit the ownership by two companies of each other's shares. Cross-ownership between listed companies in Italy may not exceed 3% (or 5% if the company is a SME) of the respective voting shares of the cross-owning companies and cross-ownership between a listed company and an unlisted company may not exceed 3% of the voting shares of the listed company. If the relevant threshold is exceeded, the second company to exceed the threshold may not exercise the voting rights attached to the shares in excess of the threshold and must sell the excess shares within one year. If the company does not sell the excess shares within one year, it will not be permitted to exercise voting rights in respect of its entire shareholding. If it is not possible to ascertain which company exceeded the threshold last, the suspension on voting rights will apply to both companies, unless otherwise agreed. The 3% (or 5% if the company is a SME) limit for cross-ownership may be increased to 5% (or 10% if the company is a SME) on the condition that such limit is only exceeded by the two companies following an agreement authorized in advance at each of the companies' shareholders' ordinary meeting. Furthermore, if a party holds an interest in excess of the previously specified thresholds of a listed company's share capital, the listed company, or the party controlling the listed company, may not purchase an interest above the same thresholds in a listed company controlled by that party. In case of non-compliance with these requirements, voting rights attributable to the shares held in excess of the applicable limit may not be exercised. If it is not possible to ascertain which company exceeded the limit last, the suspension on voting rights will, unless the two parties agree otherwise, apply to both companies. Any shareholders' resolution approved in violation of the limitation on voting rights may be annulled by a competent court, at CONSOB's request, if the resolution would not have been adopted in the absence of such votes. The restrictions on cross-ownership are not applicable when the thresholds are exceeded following a public tender offer to acquire at least 60% of a company's shares.

Shareholders' Agreements

In accordance with Italian law, agreements among shareholders that regulate the exercise of the voting rights in listed companies and in their controlling entities must be, within five days from the date of execution:

- notified to CONSOB;
- published in summary form in the press;
- filed with the companies' registry of the place where the company has its registered office; and
- notified to the listed company.

Failure to comply with these rules will render the agreements null and void and the voting rights of the relevant shares may not be exercised. Any shareholders' resolution taken in violation of this limitation on voting rights may be annulled by a competent court if the resolution would not have been adopted in the absence of such votes.

Such action may also be brought by CONSOB.

These rules apply to shareholders' agreements, entered into in whatever form, which:

- regulate the exercise of the voting rights in listed companies and in their controlling entities;
- require prior consultation for the exercise of voting rights in a listed company or in its controlling companies;
- contain limitations on the transfer of shares or securities which grant the right to purchase or subscribe for shares;
- provide for the purchase of shares or securities which grant the right to purchase or subscribe for shares;
- have as their object or effect the exercise, including joint exercise, of a dominant influence over the company; or
- are aimed at favoring or frustrating a tender/exchange offer, including an undertaking not to participate in such offer.

Disclosure rules on shareholders' agreements apply only to those agreements regarding shares totaling at least 3% (or 5% if the company is a SME) of the share capital of a company.

Moreover, the Consolidated Financial Act provides that the maximum duration of any such shareholders' agreements is three years (but the agreements can be renewed upon termination) or, if no duration is specified in the agreement, that any party may terminate the agreement upon six months' notice. In the case of a public tender offer, any party to the shareholders' agreement that intends to participate in the tender offer may withdraw from the agreement without notice, but the withdrawal notice is ineffective if that shareholder's interest is not subsequently transferred.

The Issuers' Regulation contains provisions that govern the methods and content of the notification and publication of the shareholders' agreements, as well as any subsequent amendments.

For information on the Company's Shareholders' Agreements, see "*Principal and Selling Shareholder*".

Reports to Shareholders

The Company is required to publish, in Italian, its audited annual unconsolidated financial statements and audited Annual Consolidated Financial Statements, all prepared in accordance with IFRS as supplemented by International Accounting Standards and in line with CONSOB requirements, accompanied by a directors' report on the Company's operations.

The Company is also required to produce half-yearly financial statements (with auditors' limited review), containing a directors' report on its operations.

Pursuant to Article 154—*bis* of the Consolidated Financial Act, both the annual financial statements (on a consolidated and stand-alone basis) and the half-yearly financial statements shall be accompanied by a declaration of the Chief Executive Officer and of the manager in charge of the preparation of the Company's financial reports regarding, among other things, the suitability of the documents to truthfully and accurately represent the financial position of the Company and the Group.

Different classes of Shares

The Company's shares are ordinary shares. In accordance with Italian law, the Company is permitted to issue different classes of shares, defining the rights to which such shares will be entitled, within the limits of the applicable law. The Company may issue shares having the right to vote in any shareholders' meeting or only in certain shareholders' meetings or regarding certain matters or under certain conditions, to be defined in the By-laws. The Company may issue shares having preferential rights with respect to the payment of dividends and to the repayment of capital in the event of liquidation. As of the Trading Date, the Company will have no classes of shares issued other than the ordinary shares.

Saving Shares

Italian companies which have their ordinary shares listed on an Italian or EU regulated market may issue saving shares (*azioni di risparmio*) which carry preferential rights with respect to, *inter alia*, the payment of dividends and the repayment of capital in the event of liquidation, but which have no voting rights except for voting rights at a separate meeting of holders of such saving shares when, among other things, the rights of such shareholders are affected by a decision taken at a shareholders' meeting. As of the date of this Offering Circular, the Company's do not have any issued and outstanding saving shares.

Loyalty Shares and Multiple Voting Shares

Under the Consolidated Financial Act, the By-laws of listed companies may provide that shareholders holding shares on an ongoing basis for a period of not less than 24 months are entitled to cast up to two votes for each voting share held. These loyalty shares do not represent a special class of shares under Italian law.

The increased voting right will cease in case of transfer of the relevant loyalty shares, including if the transfer is not for a consideration, or if a controlling interest in a company or entity which holds, in turn, loyalty shares in excess of 3% is transferred, either directly or indirectly.

The By-laws do not provide for such loyalty shares and increase in voting rights. No withdrawal rights are triggered in the event of any resolution that introduces any such increase in voting rights. Conversely, under the Consolidated Financial Act, listed companies are not entitled to issue multiple voting shares as a special class of shares.

Minority Shareholders' Rights

Under Italian law, any shareholder representing, individually or jointly, 0.1% of the voting share capital may challenge any shareholders' meeting resolution that violates provisions of the By-laws or applicable law within 90 days from the date of the resolution or, if the resolution is required to be filed or registered in the Companies' Register, within 90 days from the filing or registration, if (i) the resolution was adopted at a shareholders' meeting not attended by such shareholder, (ii) the shareholder dissented, (iii) the shareholder abstained from voting or (iv) the shareholder purchased the shares between the record date and the beginning of the meeting.

Directors and statutory auditors may also challenge shareholders' resolutions if such resolutions violate the By-laws or other applicable laws. Pursuant to Italian law, in cases of resolutions approving the delisting of the Company's shares (as well as in certain other cases set out in the Italian Civil Code), absent, abstaining or dissenting shareholders in the categories mentioned in the previous paragraph are given a withdrawal right enabling them to require the Company to redeem their shares at the average closing market price of the ordinary shares over the previous six months.

Each of the Company's shareholders may bring to the attention of the Board of Statutory Auditors facts or acts which are deemed wrongful, and the Board of Statutory Auditors shall take into account the complaint in its report to the general meeting. If shareholders representing at least 2% of the Company's share capital bring a matter to the attention of the Board of Statutory Auditors, such board must investigate without delay and report its findings and recommendations at a shareholders' meeting to be immediately convened if the complaint appears material and requires urgent action. If there is a basis for suspicion of serious irregularities in the carrying out of directors' duties, shareholders representing at least 5% of a company's share capital have the right to report such major irregularities to a competent court, which may investigate such irregularities and initiate an administrative proceeding, which in turn may lead, in the most serious cases, to the removal of the directors or statutory auditors. In addition, shareholders representing at least 2.5% of the Company's share capital may bring derivative suits against directors, statutory auditors and general managers (*direttori generali*) in a competent court. The Company will reimburse the legal costs of the shareholders' action in the event that the shareholders' claim is successful and (i) the court does not award the costs against the directors, statutory auditors or general managers involved to pay such costs, or (ii) in the event that such directors, statutory auditors or general managers cannot cover such costs.

In addition, pursuant to the Consolidated Financial Act, minority shareholders may, pursuant to the voting list system set out in the By-laws, contribute to the appointment of (i) a member of the Board of Directors and (ii) a member of the Board of Statutory Auditors who will act as chairman of the Board of Statutory Auditors.

In addition, pursuant to Italian law, any shareholder or third party may bring a legal action for damages against the Company's directors, statutory auditors or executive officers in respect of harms arising out of the negligence or willful misconduct thereof. Under certain circumstances, the directors may also be liable to the Company's creditors.

Withdrawal Rights

Under Italian law, shareholders have the right to withdraw from the Company, redeeming all or part of their shares, if resolutions in favor of the following are passed by the shareholders and they have not voted in favor of them:

- any amendment to the corporate object clause of the By-laws, when it allows a material change in the Company's business;
- any transformation of the Company;
- any transfer of the registered office of the Company abroad;
- any cancellation of a state of liquidation;
- any amendment to the By-laws relating to voting or participation rights or relating to the introduction or removal of any limitation on the transfer of the shares;
- the deletion of one or more withdrawal rights from the By-laws; or
- any amendment to the criteria to determine the value of the shares in case of withdrawal by a shareholder.

Moreover, in case of a resolution causing the delisting of a listed company, absent, abstaining or dissenting shareholders are given the right to withdraw and have the shares of the dissenting, absent or abstaining shareholders repurchased at the average market price of the shares over the previous six-month period.

Any agreement aimed at excluding or making it difficult for a shareholder to exercise withdrawal rights is void.

Small and Medium-Sized Companies

As of the date of this Offering Circular, the Company is qualified as small and medium-sized enterprise (SMEs) pursuant to Article 1(1) (w-quarter) of the Consolidated Financial Act. In this respect, Consob Resolution No. 19521/2016 has provided for the definition of turnover and related calculation criteria for banks.

The Company considers itself to qualify as a SME pursuant to the aforementioned provision in so far as Group turnover for the year ended December 31, 2015, calculated on the basis of the criteria set out in the resolution above, amounts to €175,464 thousands and €210,041 thousands, on the basis of the consolidated financial statements ended at the same date and Unaudited Pro-Forma Financial Information, respectively, and it is under both circumstances lower than the threshold of €300,000 thousand set forth in Article 1 (1) (w-quarter.1) of the Consolidated Financial Act.

Main provisions applicable to SME are Article 106 (1), (1—bis), (1—ter), (1—quarter), Article 106 (3), letter b) and Article 120 (2) of the Consolidate Financial Act.

Italian Mandatory Tender Offer Rules

Under the Consolidated Financial Act, a public tender offer must be made by any person who, by reason of purchases of shares for consideration or the increase of voting rights (see "*Description of Share Capital—Loyalty Shares and Multiple Voting Shares*" above) attributable to such person, directly or indirectly or acting in concert with other persons, holds more than 30% of the voting rights of a company listed on an Italian regulated market (to be calculated (i) excluding any treasury shares held, directly or indirectly, by the company with certain exceptions, and (ii) including certain derivative instruments, as provided by the Issuers' Regulation).

In companies other than SMEs, a public tender offer must be made also by any person who, by reason of purchases of shares, holds more than 25% of the voting share capital if no other shareholder holds a greater interest in the company.

The tender offer must cover all remaining issued and outstanding shares of the company. A mandatory tender offer must also be launched by any person who owns more than 30% (or more than 25% of the voting share capital if no other shareholder holds a greater interest in the company or the thresholds provided for SMEs) of the voting share capital (to be calculated (i) excluding any treasury shares held, directly or indirectly, by the company with certain exceptions and (ii) including certain derivative instruments, as provided by the Issuers' Regulation) without at the same time exercising majority voting rights at an ordinary shareholders' meeting and purchases or acquires, directly or indirectly, by way of acquisition or exercise of subscription or conversion rights during a twelve-month period more than 5% of the share capital of such company.

The tender offer must be launched within 20 days of the date on which the relevant threshold was exceeded, at a price not lower than the highest price paid by the offeror for any purchase of the company's shares of the same class during the previous twelve months. If during the preceding 12-month period no purchase of shares took place for consideration, the offer must be launched at the weighted average market price of the company's shares of the same class in the previous twelve months or, if the company's shares have been trading for less than twelve months, at the weighted average market price of such shorter period of time as such shares have been trading. However, pursuant to the Consolidated Financial Act and the Issuers' Regulation, CONSOB may authorize or impose the launch of a mandatory tender offer at a different price in certain circumstances.

Under certain circumstances, notwithstanding the purchase of a company's shares in excess of the relevant threshold amount, the Consolidated Financial Act and the Issuers' Regulation, as amended, establish various exemptions from the duty to launch a tender offer, including the following:

- another shareholder or other shareholders, collectively, can exercise the majority of the voting rights at an ordinary shareholders' meeting;
- the threshold is exceeded:
  - (i) in the context of the recapitalization of a listed company or another measure having the purpose of increasing the company's assets and the company is in a certified situation of financial crisis;
  - (ii) without other purchases having been carried out or agreed upon during the previous twelve months, exclusively through the subscription of an increase in the share capital of the listed company, with the exclusion of pre-emptive rights made in the context of a recovery plan which (a) was previously communicated to the market, (b) certifies such condition of crisis and (c) whose reasonableness was certified according to the provisions of the Italian bankruptcy law; or
  - (iii) in the presence of a condition of crisis that differs from the cases under points (i) and (ii) above, subject to certain conditions;
- the shareholding is acquired following the transfer between companies in which the same persons have also jointly and/or indirectly through controlled companies pursuant to Article 2359(1)(1) of the Italian Civil Code, the majority of the voting rights at ordinary meetings or is acquired following the transfer between such companies and the above subjects;
- the relevant threshold is exceeded as a result of the exercise of the pre-emptive, subscription or conversion rights as originally granted;
- the relevant threshold is exceeded and the purchaser undertakes to sell to non-related parties such excessive shareholding, or to reduce the voting rights in excess of the relevant thresholds, within twelve months without exercising the relevant voting rights;
- the relevant thresholds under Article 106(1) and (3)(b) of the Consolidated Financial Act are exceeded as a result of the purchase of derivative financial instruments, and the purchaser undertakes to sell to non-related parties such excessive shareholding within six months and not to exercise in the same period the voting rights associated with the participation exceeding the thresholds;
- the threshold is exceeded as a result of merger and demerger transactions approved by the shareholders of the target company and, without prejudice to Articles 2368, 2369 and 2373 of the Italian Civil Code, the majority of shareholders present in the meeting does not express a negative vote (without taking into account the shareholder who purchases the shareholding exceeding the applicable thresholds and the shareholder or the shareholders who own, also in concert, the majority (also relative) of at least 10% of the share capital). For this purpose, the by-laws of listed companies may provide for a qualified majority of the shareholders expressing a negative vote, in any case not exceeding 7.5% of the share capital;
- the purchase follows inheritance or transactions *inter vivos* for no consideration.

- Italian law further provides that the acquisition of an interest in excess of the relevant threshold does not trigger the obligation to launch a tender offer, if the person concerned has exceeded the threshold as a result of either:
- a public tender offer or public exchange offer launched for 100% of the ordinary share capital of the company, *provided that*, in the event of a public exchange offer, the offeror is offering listed securities or, as an alternative, cash consideration; or
- a public tender offer or a public exchange offer launched for at least 60% of the ordinary share capital of the company, if:
  (i) the validity of the bid is subject to the approval of a number of shareholders who together possess the majority of the securities concerned, excluding securities held by the bidder, also in relative terms, the major shareholder, if that shareholding exceeds 10%, and by persons acting in concert with the bidder;
  (ii) the offeror (its subsidiaries, controlling persons, related companies and other persons connected to it by virtue, among other things, of shareholders' agreements) has not acquired more than 1% of the shares of the company in the twelve months before notifying CONSOB or during the offer; and
  (iii) CONSOB, after having received satisfactory evidence that the terms under (i) and (ii) have been complied with, has ruled that a mandatory tender offer need not be made.

After such offer has been completed, the offeror nevertheless becomes obliged to launch an offer for 100% of the share capital if, during the subsequent twelve months, either:

- it (or its affiliates, subsidiaries, directors, officers or any of the shareholders with which it has entered into a shareholders' agreement) purchases more than 1% of the share capital of the company; or
- the shareholders of the company approve a merger or demerger.

Further, (i) anyone holding more than 90% of a class of voting shares of an Italian listed company must purchase all the remaining shares of such class upon the remaining holders' requests, unless it restores an adequate free float within 90 days so as to ensure proper trading, and (ii) any person holding at least 95% of a class of voting shares of an Italian listed company as a result of a tender offer for 100% of the voting securities must purchase all of the remaining shares of that class upon the holders' request.

In the case of (ii) above-and also in the case of (i) above where the interest is purchased exclusively through a tender offer for 100% of the voting shares-the purchase price shall be the same as in the tender offer *provided that*, in a voluntary offer, at least 90% of the voting shares targeted have been tendered in the offer.

Otherwise, the price is determined by CONSOB, taking into account the price offered in a prior tender offer, if any, or the market price of the shares during the previous six months.

Any shareholder holding more than 95% of the ordinary share capital of a listed company pursuant to a tender offer involving all the voting shares issued by the company has the right to obtain title to the remaining voting shares within three months after the end of the tender offer, if it has stated its intention to make such an acquisition in the offer document, at a price determined as indicated in the above paragraph.

The voting rights relating to all the shares held by a person who has not complied with these rules, cannot be exercised, and the number of shares exceeding the relevant threshold must be sold within twelve months. In the event of non-compliance with such provisions, a shareholders' resolution passed with the votes relating to such shares may be challenged by the shareholders or by CONSOB if it would not have been passed without such votes.

Where, in the period between the date of the notice referred to in Article 102(1) of the Consolidated Financial Act, and the date of the payment of the consideration, the offerors, and those acting in concert with them, acquire, directly or indirectly or through nominees, the financial instruments that are subject to the offer or hold long positions which relate to such financial instruments for a consideration higher than the offer price, they must align the offer price to the price paid for the above acquisitions.

These provisions apply to the purchases, for an amount exceeding 0.1% of the same class of financial instruments subject to the offer by the offerors and the persons acting in concert with them, which are made in the six months following the last payment date; in this case, the obligation to adjust the offer price to the highest price paid shall be fulfilled by the offerors through the payment of the balance to the tendering shareholders.

Liability for mismanagement of subsidiaries

Under Article 2497 of the Italian Civil Code, companies and other entities that, acting in their own interest or the interest of third parties, mismanage a company subject to their direction and coordination powers are liable to such company's shareholders and creditors for ensuing damages. Their liability is excluded if: (i) the ensuing damage is fully eliminated, including through subsequent transactions; or (ii) the damage is effectively offset by the global benefits derived by the company from the continuing exercise of their direction and coordination powers. Direction and coordination powers are presumed to exist, among other things, with respect to consolidated subsidiaries.

SECURITIES TRADING IN ITALY

The Italian Securities Market

The Offer Shares will be traded on the MTA, the Italian automated screen-based trading market.

The MTA is organized and administered by Borsa Italiana and is subject to the supervision and control of CONSOB, which is responsible, among other things, for regulating investment companies, securities markets and public offerings of securities in Italy to ensure the transparency and regularity of dealings and to protect investors.

Borsa Italiana, part of the London Stock Exchange Group, is a joint stock company that is responsible for the organization and management of the Italian-regulated financial markets (including the MTA). Since January 2, 1998, Borsa Italiana has been responsible for, *inter alia*:

- defining and organizing the functioning of the markets it operates;
- defining the rules and procedures for admission and listing on the market for issuing companies; and
- managing and overseeing the markets.

The Consolidated Financial Act provides (with minor exceptions) that only registered securities dealers and banks may trade equity securities, as well as engage in any other investment services with the public. Banks and investment services firms incorporated in an EU member state are permitted to operate in Italy *provided that* the intent of the bank or investment services firm to operate in Italy is communicated to, respectively, CONSOB and the Bank of Italy by the competent authority of the member state in which they are established. Non-EU banks and non-EU investment services firms may operate in Italy either on a branch or on a cross-border basis after receiving the approval of CONSOB and the Bank of Italy, respectively.

The legal framework of securities trading in Italy was reformed by Legislative Decree No. 164 of September 17, 2007, as amended (the "**MiFID Decree**"), which implemented Directive No. 2004/39/EC, Directive No. 2006/73/EC and Regulation (EC) No. 1287/2006 (together called the "**MiFID Directive**"). This major reform of Italian securities trading especially focused on the pre-trade and post-trade transparency requirements for equity securities, which now apply both to trading on the mainstream regulated exchanges, but also to trading in alternative venues or through other systems that are functionally similar to exchanges.

Clearance and Settlement in Italy

The settlement of stock exchange transactions is carried out by Monte Titoli S.p.A., a centralized securities clearing system owned by Borsa Italiana. Almost all Italian banks and certain Italian securities dealers have securities accounts with Monte Titoli and act as depositaries for investors. Beneficial owners of shares may hold their interests through term deposit accounts with any depositary having an account with Monte Titoli.

Under Italian law, shareholders are unable to obtain physical delivery of share certificates representing their shares in Italian-listed companies. However, the beneficial owners of shares held by Monte Titoli may transfer their shares, collect dividends, create liens and exercise other rights with respect to those shares through these accounts.

Participants in Euroclear and Clearstream may hold their shares, transfer their shares, collect dividends, create liens and exercise other rights with respect to the shares through Euroclear or Clearstream respectively. Holders of ordinary shares may request Euroclear or Clearstream to transfer their shares to an account set up for such holders with an Italian bank or any authorized broker having an account with Monte Titoli.

Market Regulations

The Italian financial markets are primarily regulated by the Consolidated Financial Act that implements EU Directives related to financial markets, banking and investment business, namely the MiFID Directive (which replaced the EC Investment Services Directive) and Directive 2006/48/EC and Directive 2006/49/EC (which replaced the Capital Adequacy Directive).

A two-day rolling cash settlement period applies to all trades of equity securities in Italy. Any person, through an authorized intermediary, may purchase or sell listed securities following (i) in the case of sales, deposit of the securities; and (ii) in the case of purchases, the deposit of 100% of their value in cash or deposit of listed securities. No "closing price" is reported for the electronic trading system, but (i) an "official price" is calculated for each security as a weighted average of all trades occurring during the trading day, and (ii) a "reference price" is also calculated for each security equal to the closing auction price.

If an opening price of a security (established each trading day prior to the Trading Date based on bids received) differs by more than a certain amount established by Borsa Italiana from the previous day's reference price then trading in that security will be suspended by Borsa Italiana. If in the course of a trading day, the price of a security fluctuates by more than a certain amount established by Borsa Italiana from the last reported price or from the previous day's reference price, an automatic ten-minute suspension will be declared. In the event of such a suspension, orders already placed may not be modified or cancelled, and new orders may not be processed. Borsa Italiana has the authority to suspend trading of any security in response to extreme price fluctuations or for other reasons.

The Consolidated Financial Act provides that CONSOB may prohibit the implementation of admission and exclusion decisions or order the revocation of a decision to suspend financial instruments or intermediaries from trading within five days of receiving the relevant notification if, on the basis of the information in its possession, it considers the decision to be contrary to transparency requirements for the market, the orderly conduct of trading or for the protection of investors. CONSOB may request Borsa Italiana to: (i) provide all the information it considers necessary for such purposes and (ii) exclude or suspend financial instruments or intermediaries from trading.

EXCHANGE CONTROLS

The following discussion of exchange controls in Italy summarizes relevant Italian laws in force at the date hereof, but does not purport to be a comprehensive description of all exchange control considerations that may be relevant to a decision to subscribe for or purchase the Offer Shares.

There are currently no exchange controls in Italy restricting rights deriving from the ownership of shares. Residents and non-residents of Italy may hold foreign currency and foreign securities of any kind, within and outside Italy. Non-residents may invest in Italian securities without restriction subject to applicable procedural requirements. Non-residents may transfer (to and from Italy) cash, instruments of credit and securities (in both foreign currencies and Euros) representing interest, dividends, other asset distributions and the proceeds of any dispositions. Certain procedural requirements are imposed by law, however, with respect to transfers of cash and securities to and from Italy.

Reporting, disclosure and record-keeping requirements are contained in Italian legislation implementing EU Directive 1988/361/EC on the free movement of capital, EU Directive 2005/60/EC on the prevention of the use of the financial system for the purposes of money laundering and terrorist financing and EU Regulation 2005/1889/EC on controls on cash entering or leaving the European Union.

Such legislation requires, among other things, that any person entering or leaving Italy and carrying cash or negotiable instruments in bearer form (or any other form that enables their transfer by way of delivery) in an amount equal to or in excess of €10,000 make a declaration to this effect to the Italian customs authorities. Similar provisions apply in connection with transfers of cash or negotiable bearer instruments made via mail or courier.

Moreover, pursuant to Law Decree 1990/167 concerning reporting requirements for tax purposes of cross border transfers of means of payment, credit institutions and other financial intermediaries in Italy intervening in transfers to or from foreign countries of means of payment provided for by Article 1(2)(i) of Legislative Decree 231/2007, as amended (including cash, bank and postal cheques, banker's drafts and similar instruments, postal money orders, credit transfers and payment orders, credit cards and other payment cards, transferable insurance policies, pawn tickets and any other instrument available through which it is possible to transfer, move or acquire, including by electronic means, funds, valuables or financial balances), in an amount equal to or higher than €15,000 on behalf of or in favor of individuals, non-commercial entities, *società semplici* and similar partnerships (in particular, *società semplici* or similar partnerships in accordance with Article 5 of Presidential Decree 917 of December 22, 1986) are required to provide information on such transfers to the Italian Revenue Agency.

Individuals, non-commercial entities, *società semplici* and similar partnerships resident in Italy for tax purposes are required to report in their yearly income tax return, for tax monitoring purposes, any financial assets held abroad during a tax year (including shares), from which income taxable in Italy may be derived. In relation to the Offer Shares or the ordinary shares of the Company, such reporting obligation shall not apply if such shares are not held abroad and, in any case, if such shares are deposited with an Italian intermediary that intervenes in the collection of the relevant income and the intermediary applied withholding or substitute tax on income derived from such shares.

Certain procedural requirements are imposed by Italian law, however, including the requirements that transfers into or out of Italy of cash or securities in excess of €3,000 be effected by residents or non-residents via credit institutions and other authorized intermediaries. Suspicious transactions must be reported in writing to the Financial Intelligence Unit of the Bank of Italy by the credit institutions and other authorized intermediaries that are requested to effect such transactions in Italy. In addition, credit institutions and other intermediaries effecting such transactions in Italy on behalf of residents of Italy or non-residents are required to maintain records of such transactions for ten years, which may be inspected at any time by Italian tax and judicial authorities. Non-compliance with these reporting and record-keeping requirements may result in administrative fines or, in the case of false reporting and in certain cases of incomplete reporting, criminal penalties. Upon the verification of certain conditions, the Financial Intelligence Unit of the Bank of Italy may make use of the data received and transfer the data to other government offices, the police's money laundering department or tax evasion department ("*nuclei operativi della Guardia di Finanza*").

We cannot assure you that the present regulatory environment within or outside Italy will endure or that certain policies presently in effect will be maintained. However, Italy is required to maintain certain regulations and policies by virtue of its membership in the EU and other international organizations, as well as by its adherence to various bilateral and multilateral agreements.

TAXATION OF ORDINARY SHARES

This taxation summary solely addresses certain material Italian and U.S. federal income tax consequences to shareholders in connection with the offering of our shares. This summary does not discuss every aspect of taxation that may be relevant to a shareholder or that may be relevant to a particular taxpayer under special circumstances or who is subject to special treatment under applicable law and is not intended to be applicable in all respects to all categories of investors.

This taxation summary assumes that we are organized and that our business will be conducted in the manner outlined in this Offering Circular. Changes in our tax residence, organizational structure or the manner in which we conduct our business may invalidate this summary.

The statements herein regarding taxation are based on the laws in force in the Republic of Italy or the United States, as the case may be, as of the date of this Offering Circular, which are subject to changes that may have a retroactive effect. A change to such laws may invalidate the contents of this summary, which will not be updated to reflect changes in laws.

Prospective investors should consult their tax advisors regarding their particular personal tax consequences of acquiring, owning and disposing of shares.

Italian Tax Considerations

Definitions

For purposes of this section, the terms defined have the meaning described below.

"**TUIR**": Presidential Decree No. 917 of December 22, 1986;

"**Italian White List**": the countries allowing a satisfactory exchange of information with Italy listed in a ministerial decree issued under the authority of Article 11(4)(c), of Legislative Decree No. 239 of April 1, 1996 as amended by Article 10(2)(b), of Legislative Decree No. 147 of September 14, 2015, and including the amendments recently made by the Italian Ministerial Decree of August 9, 2016 ("White List States"). As the ministerial decree has not been issued yet, the Italian White List is now the list included in the Italian Ministerial Decree of September 4, 1996, as subsequently amended and supplemented.

"**Non-Qualified Holdings**": shareholdings in companies listed on a regulated market other than Qualified Holdings;

"**Qualified Holdings**": shareholdings in a company listed on a regulated market consisting of the ownership of shares (other than savings shares—"*azioni di risparmio*"), rights or securities through which shares may be acquired which represent overall voting rights exercisable at ordinary shareholders' meetings of over 2% or an interest in the share capital of over 5%; and

"**Transfer of Qualified Holdings**": transfers of shares (other than savings shares—"*azioni di risparmio*"), rights or securities through which shares can be acquired, which exceed the threshold for their qualification as Qualified Holdings, over a period of twelve months. The twelve-month period starts from the date on which the securities and the rights owned represent a percentage of voting rights or interest in the capital exceeding the aforesaid threshold. For rights or securities through which holdings can be acquired, the percentage of voting rights or interest in the share capital potentially attributable to the holdings is taken into account.

Tax regime for dividends

The taxation may vary as follows:

Italian tax resident individuals not engaged in business activity

Dividends paid on the Shares to individuals who are tax resident in Italy where such Shares are not owned in connection with the carrying out of a business activity, are not held in the context of the "*risparmio gestito*" regime as defined below and represent Non-qualified Holdings in the Company, are subject to substitute tax at the rate of 26%, pursuant to Article 27—*ter* of Presidential Decree No. 600 of September 29, 1973 (hereinafter "**Decree 600/73**"). As a result of the withholding of this substitute tax, shareholders are not required to report received dividends on their tax returns.

This substitute tax is withheld by the Italian resident share depository where the securities are deposited, which have joined the centralized management system managed by Monte Titoli or, through a representative appointed in Italy (in particular, a bank or a SIM resident in Italy, a permanent establishment in Italy of non-resident banks or investment firms, or a centralized financial instrument management company authorized pursuant to Article 80 of the Consolidated Financial Act), by non-resident share depositories which adhere to the Monte Titoli system or to foreign centralized deposit systems in turn adhering to the Monte Titoli system.

Dividends paid to individuals who are resident in Italy for tax purposes on Shares which are not owned in connection with the carrying out of a business activity and which represent Qualified Holdings are not subject to any withholding or substitute tax subject to such shareholders declaring, at the time of receipt, that the dividends collected are related to Qualified Holdings.

Such dividends are considered in determining the shareholder's overall income taxable in Italy limited to 49.72% of the amounts of the distribution received. This rate applies to dividends arising out of profits which have been yielded by the Company starting from the tax year following the one that was current as of December 31, 2007. The 40% inclusion rate previously in force still applies to profits that have been yielded by the Company up to the tax year that was current as of December 31, 2007. Furthermore, starting from the resolutions of distribution which follow the one having as its subject the profits for the current tax year as of December 31, 2007, for the purpose of taxation of the recipient, distributed dividends are deemed to be formed, with priority, by profits that have been yielded by the Company until such tax year.

Paragraphs from 100 to 114 of Law No. 232 of 11 December 2016 (the "**Finance Act 2017**") provides tax exemptions for capital gains and investment income gained by individuals who are tax residents in Italy and who do not carry out business activities, deriving from medium-long term investments (*i.e.* 5 years), so called "*piani individuali di risparmio*".

Italian tax resident individuals not engaged in business activity, holding shares in the context of the "risparmio gestito" regime

Dividends paid to individuals tax resident in Italy on Shares that are not owned in connection with the carrying out of a business activity and constituting Non-Qualified Holdings, admitted in an asset management relationship with an authorized intermediary, for which the option for the discretionary investment portfolio ("*risparmio gestito*") regime has been exercised pursuant to Article 7 of Legislative Decree No. 461 of November 21, 1997 ("**Decree 461**"), are not subject to any withholding or substitute tax and are included in the annual accrued management result ("*risultato maturato annuo di gestione*"), to be subjected to 26% substitute tax.

Italian tax resident individuals engaged in business activity

Dividends on the Shares paid to individuals who are tax resident in Italy where such Shares are owned in connection with the carrying out of a business activity are not subject to any withholding or substitute tax subject to the beneficiaries declaring at the time of receipt that the profits collected are from holdings related to the business activity.

These dividends are considered in determining the shareholder's overall income taxable in Italy limited to 49.72% of the amounts of the distribution received. Such rate applies to dividends arising out of profits which have been yielded by the Company starting from the tax year following the one that was current as of December 31, 2007. The 40% inclusion rate previously in force still applies to profits which have been yielded by the Company up to the tax year that was current as of December 31, 2007. Starting from the resolutions of distribution which follow the one having as its subject the profits for the current tax year as of December 31, 2007, for the purpose of taxation of the recipient, distributed dividends are deemed to be formed, with priority, by profits that have been yielded by the Company until such tax year.

Società in nome collettivo, società in accomandita semplice and similar partnerships as referred to in Article 5 of TUIR, as well as companies and entities referred to in Article 73(1)(a)-(b), of TUIR, which are tax resident in Italy

Dividends paid to *società in nome collettivo*, *società in accomandita semplice* and similar partnerships as referred to in Article 5 of TUIR, as well as to companies and entities as referred to in Article 73(1)(a)-(b), of TUIR, including, *inter alia*, joint stock companies, limited liability companies and public and private entities whose sole or primary purpose is to engage in commercial activity, which are tax resident in Italy, are (i) not subject to any Italian withholding or substitute tax; and (ii) considered in determining the recipient's overall income taxable in Italy according to the following terms:

(a) distributions in favor of *società in nome collettivo*, *società in accomandita semplice* and similar partnerships are partially considered in determining the recipient's overall income taxable in Italy limited to 49.72% of the amounts of the distribution received. Such rate applies to dividends arising out of profits which have been yielded by the Company starting from the tax year following the one that was current as of December 31, 2007. The previous inclusion rate of 40% still applies to profits which have been yielded by the Company up to the tax year that was current as of December 31, 2007. Starting from the resolutions of distribution which follow the one having as its subject the profits for the current tax year as of December 31, 2007, for the purpose of taxation of the recipient, distributed dividends are deemed to be formed, with priority, by profits that have been yielded by the Company until such tax year; and

(b) distributions in favor of parties liable to corporate income tax ("**IRES**") (including, *inter alia*, joint stock companies, limited liability companies and public and private entities whose sole or primary purpose is to engage in commercial activity) are considered in determining the recipient's overall income taxable in Italy limited to 5% of the amount of distributions received. However, dividends are fully subject to tax in the following circumstances: (i) dividends paid to taxpayers using IAS / IFRS international accounting standards, referred to in Regulation No. 1606/2002 of the European Parliament and Council of July 19, 2002 in relation to shares accounted for as "held for trading" in their balance sheet; or (ii) dividends paid in relation to shares acquired through repo transactions, stock lending and similar transactions, unless the beneficial owner of such dividends would have benefited from the 95% tax exclusion.

For some types of companies and under certain conditions, dividends are also included in determining the respective net value of production subject to regional tax on business activities ("**IRAP**").

Italian tax resident non-commercial entities referred to in Article 73(1)(c), of the TUIR

No Italian tax is withheld at source on dividends paid to Italian tax resident non-commercial entities referred to in Article 73(1)(c) of the TUIR (including Italian tax resident trusts that do not carry out a business activity), except for Italian collective investment vehicles ("**OICR**"). Only 77.74% of the dividends are included in the holder's overall income subject to IRES.

Italian tax resident entities exempt from IRES and Italian tax resident persons outside the scope of IRES

Dividends on the Shares that are received by Italian tax resident entities exempt from IRES are subject to substitute tax at a rate of 26% applied by the Italian depository (which has joined the centralized deposit system managed by Monte Titoli) which the Shares are deposited with or, through a representative appointed in Italy, by the non-resident share depository which adheres to the Monte Titoli system or to foreign centralized deposit systems in turn adhering to the Monte Titoli system.

The 26% substitute tax should not apply on dividends paid to entities that are outside the scope of IRES (*esclusi*) under Article 74(1) of the TUIR.

Italian pension funds and OICR (other than real estate OICR)

Dividends on the Shares that are received by (a) Italian pension funds as referred to in Legislative Decree No. 252 of December 5, 2005 ("**Decree 252/2005**") and by (b) Italian undertakings for collective investment ("**OICR**"), other than Italian real estate investment funds and Italian real estate SICAFs ("**Real Estate OICR**"), are not subject to any withholding or substitute tax. According to articles 88-99 of the Finance Act 2017, published in the Official Gazette No. 297, Ordinary Supplement No. 57, witholding tax on dividends (pursuant to article 27 of Decree 600/73) and substitute tax on profits derived from shares deposited in Monte Titoli S.p.A. (pursuant to article 27-*ter* of Decree 600/73) are not applied to the profits paid to Italian pension funds derived from qualified investments representing 5 percent of total asset resulting from the balance sheet of the previous year, and held for at least 5 years.

Dividends received by OICR that are set up in Italy and that are subject to regulatory supervision (other than Real Estate OICR) are not subject to tax at the level of the OICR.

Profits derived by the holders of the aforementioned OICR realized upon sale, redemption, liquidation as well as upon periodic distributions are subject to the tax regime provided for by Article 26—*quinquies* of Decree 600/73.

Italian Real Estate OICR

According to Legislative Decree No. 351 of September 25, 2001, as amended by conversion Law No. 410 of November 23, 2001, no Italian tax is withheld at source on dividends paid to Italian Real Estate OICR. Moreover, dividends are not subject to either IRES or IRAP at the level of the Real Estate OICR. However, income realized by Italian Real Estate OICR is attributed *pro rata* to Italian tax resident unitholders, irrespective of any actual distribution, on a tax transparency basis if such unitholders are not institutional investors and hold units / shares in the Real Estate OICR representing more than 5% of the Real Estate OICR's net asset value.

Non-Italian tax residents holding the Shares through permanent establishment in Italy

Distributions of dividends on Shares received by persons that are not tax resident in Italy and who hold the Shares through a permanent establishment in Italy, as determined for Italian tax purposes, to which the shares are effectively connected are not subject to any withholding tax or substitute tax in Italy and will be included in the total business income of the permanent establishment, to be subject to tax in Italy according to the ordinary rules applicable to resident companies, either (i) limited to 5% of their amount, or (ii) in their full amount if dividends are related to securities accounted for as "held for trading" by subjects applying the IAS/IFRS international accounting standards.

For some types of businesses and under certain conditions, dividends are also included in determining the respective net value of production subject to IRAP.

Non-Italian tax residents that do not hold the Shares through a permanent establishment in Italy

Dividends received by persons that are not tax resident in Italy and which do not have a permanent establishment in Italy, as determined for Italian tax purposes, or with a permanent establishment in Italy to which the holding is not effectively connected are, in principle, subject to substitute tax of 26%, pursuant to Article 27—*ter* of Decree 600/73.

Such substitute tax is withheld by the Italian resident share depository where the securities are deposited, which have joined the centralized management system managed by Monte Titoli or, through a representative appointed in Italy (in particular, a bank or a SIM resident in Italy, a permanent establishment in Italy of non-resident banks or investment firms, or a centralized financial instrument management company authorized pursuant to Article 80 of the Consolidated Financial Act), by non-resident share depositories which adhere to the Monte Titoli system or to foreign centralized deposit systems in turn adhering to the Monte Titoli system.

Subject to a specific application that must be submitted to the Italian tax authorities under the terms and conditions provided by law, nonresident shareholders are entitled to relief (in the form of a refund), which cannot be greater than $^{11}/_{26}$ (eleven twenty-sixths) of the 26% substitute tax levied in Italy under Article 27—*ter* of Decree 600/73, if they can demonstrate to have paid a final tax abroad on the same profits. Shareholders who may be eligible for the relief should consult with their own independent tax advisors to determine whether they are eligible for, and how to obtain, the tax refund. Amongst others, the following shareholders are not entitled to the refund: (a) holders of savings shares, if any; and (b) pension funds that are set up in an EU Member States or in a State that is party to the European Economic Area Agreement ("**EEA Member State**") and is included in the Italian White List.

As an alternative to the aforementioned refund, residents of countries where income double taxation treaties with Italy are in force may request the application of the substitute tax on dividends at the (reduced) rate provided for by the applicable treaty. For this purpose, the entities with which the shares are deposited, which have joined the centralized deposit system managed by Monte Titoli, must promptly obtain:

- a statement by the non-resident party drawn up in compliance with the form approved by the Italian tax authorities (*Provvedimento* No. 2013/84404) that it is the actual beneficiary of the dividends, including identification particulars, the fulfillment of all conditions to which the treaty regime is subject, and any elements that may be necessary to determine the tax rate applicable pursuant to the treaty; and

- a certification from the competent tax authority of the State where the beneficiary of the dividends resides, proving tax residence in that State. This certification, included in the form mentioned above, shall be valid for the tax period contained in the statement starting from the issuing date, *provided that* all requirements remain met.

If such documentation is not submitted to the depositary before payment of the dividend, the substitute tax is generally applied at the rate of 26%. The actual beneficiary of the dividends may nevertheless request a refund from the Italian tax administration for the difference between the withholding levied and the one applicable pursuant to the treaty by means of the appropriate refund request, accompanied by the aforementioned documentation. This must be submitted according to the terms and conditions provided by law.

In the event that recipients and beneficiaries of the dividends are companies or entities (i) resident for tax purposes in one of the EU Member States or in an EEA Member State, included in the Italian White List and (ii) subject to corporate income tax in such State, the dividends are subject to substitute tax in Italy at a rate of 1.375% (1.20% starting from January 1, 2017 according to the Article 1(62) of Law No. 208 of December 28, 2015). The companies or entities are not entitled to the 11/26 refund described above. For the application of the 1.375% (1.20% starting from January 1, 2017 according to the Article 1(62) of Law No. 208 of December 28, 2015) specific application to the depositary of the shares due to apply the substitute tax, accompanied by an appropriate certificate of tax residence and of tax status issued by the competent foreign tax authority.

If the recipients and beneficiaries of the dividends are pension funds set up in one of the EU Member States or in one of the EEA Member States, included in the Italian White List, such pension funds will be entitled to benefit from the application of substitute tax on dividends at the reduced 11% rate. For the purposes of the application of the 11% substitute tax, foreign pension funds will be required to promptly file a specific application to the depositary of the shares due to apply the substitute tax, accompanied by appropriate documentation.

Under Article 27—*bis* of Decree 600/73, which implemented Directive 435/90/EEC of July 23, 1990, then recast in EU Directive 2011/96 of November 30, 2011 (the "**Parent Subsidiary Directive**"), in the event that the dividends are received by a company that (a) is incorporated in one of the forms provided for in the appendix to the Parent Subsidiary Directive, (b) is resident for tax purposes in an EU Member State without being considered resident outside the EU according to a double tax treaty signed with a third country, (c) is subject in the country of residence to one of the taxes indicated in the appendix to the Parent Subsidiary Directive with no possibility of benefiting from optional or exemption regimes that have no territorial or time limitations and (d) holds a direct holding in the Company of no less than 10% of the share capital for an uninterrupted period of at least one year, such company is entitled to request a refund from the Italian tax authority of the substitute tax levied on the dividends received by it.

For this purpose, the non-resident company must produce the documentation certifying the existence of the aforementioned conditions drawn up in compliance with the form approved by the Italian tax authorities (*Provvedimento* No. 2013/84404) which contains also a specific section to be endorsed by the foreign country's competent tax authority, in order to certify that the non-resident company satisfies the aforementioned requirements from (a) to (c). In addition, as clarified by the Italian tax authorities, upon the occurrence of the aforesaid conditions and as an alternative to submitting a refund request subsequent to the dividend distribution, *provided that* the one-year minimum holding period for the holding in the Company has already elapsed at the time of the said dividend distribution, the non-Italian resident company may request directly the depositary of the shares not to levy the substitute tax by promptly submitting the same aforementioned documentation to such intermediary. As to non-Italian resident companies that are controlled directly or indirectly by parties that are not residents of EU Member States, the aforesaid refund or alternative exemption regime may be requested only upon the condition that the non-resident companies demonstrate that they do not hold the shareholding in the Company for the sole or primary purpose of benefiting from the regime in object.

Under the Agreement between the European Community and the Swiss Confederation providing for measures equivalent to those laid down in Council Directive 2003/48/EC on taxation of savings income in the form of interest payments, the substitute tax refund / exemption regime described above also applies to dividends paid to a company that (a) is resident for tax purposes in Switzerland without being considered to be resident outside Switzerland according to a double tax treaty signed with a non-EU country, (b) is a limited liability company, (c) is subject to Swiss corporate tax without being exempted or benefiting from preferential tax regimes, and (d) directly holds shares in the Company that represent an interest in the

Company's issued and outstanding capital of no less than 25% for an uninterrupted period of at least two years.

Dividends distributed to international entities or bodies that benefit from exemption from taxation in Italy pursuant to international rules or treaties entered into force in Italy will not be subject to substitute tax.

Distributions out of Capital Reserves

The tax regime summarized in this subsection "Distributions out of Capital Reserves" applies only to classes of holders of the Shares that are described here below.

The information provided in this subsection summarizes the Italian tax regime applicable to the distributions by the Company-other than in case of reduction of excess capital, withdrawal, exclusion, redemption or liquidation-of equity reserves as referred to under Article 47(5) of TUIR, such as, for instance, reserves or other funds formed with share premiums, equalizing interests (*interessi di conguaglio*) paid in by the subscribers, equity (other than share capital) contributions (*versamenti a fondo perduto*) or share capital account payments (*versamenti in conto capitale*) made by shareholders and tax-exempt revaluation reserves (the "**Capital Reserves**").

Italian tax resident individuals not carrying out business activities

Regardless of the shareholders' meeting resolution, the amounts received on Shares as distribution of Capital Reserves of the Company by individuals who are tax resident in Italy and hold the Shares not in connection with the carrying out of a business activity, are deemed to be profits for the recipients within the limits and to the extent that the distributing company has profits for the period and retained profits (except for any portion thereof earmarked to a tax-deferred reserve). The amounts qualified as profits are subject to the same regime described above for dividends. The sums received as distributions from Capital Reserves reduce by the same amount the tax basis of the Shares. Moreover, the Capital Reserves distributed in excess in respect of the tax basis of the Shares held by the investors constitute dividends for tax purposes. It follows that at the time of subsequent transfer of the Shares, the taxable capital gain is calculated as the difference between the sale price and the tax basis of the Shares, reduced by an amount equal to the sums received as distributions of Capital Reserves (net of the amounts that qualify as profits).

In case of a shareholding for which the individual shareholder has opted for the discretionary investment portfolio regime ("*Regime del Risparmio Gestito*") described under "Tax regime for capital gains realized upon transfer of shares-Italian tax resident individuals not engaged in business activities", the amounts distributed by way of distribution of Capital Reserves for the portion exceeding the tax basis of the participation should be included in the annual net accrued result of the portfolio for the tax period in which the distribution occurred. The value of such shareholding at the end of the same tax period (or, if earlier, when the discretionary investment portfolio regime terminates), must be included in the calculation of the annual net accrued results of the portfolio for the tax period, which is subject to the 26% substitute tax.

Società in nome collettivo, società in accomandita semplice and similar partnerships as referred to in Article 5 of TUIR, as well as companies and entities referred to in Article 73(1)(a)-(b), of TUIR, and individuals engaged in business activity, which are tax resident in Italy

For *società in nome collettivo*, *società in accomandita semplice* and similar partnerships as referred to in Article 5 of TUIR, companies and entities as referred to in Article 73(1)(a)-(b) of TUIR and individuals holding shares in connection with the exercise of business activity, that are tax resident in Italy, the sums received as distributions of Capital Reserves qualify as profits to the extent that the distributing company has profits for the period and retained profits (except for any portion thereof earmarked to a tax-deferred reserve). The sums classified as profits should be subject to the same regime described above for dividends. The sums received as distributions of Capital Reserves, net of any amounts that qualify as profits, shall reduce the tax basis of the Shares. Moreover, the Capital Reserves distributed in excess in respect of the tax basis of the Shares held by the investors constitute capital gain for tax purposes and should be subject to the same regime described below.

Italian tax resident non-commercial entities referred to in Article 73(1)(c) of the TUIR

The sums received by Italian tax resident non-commercial entities referred to in Article 73(1)(c) of the TUIR (including Italian tax resident trusts that do not carry out a business activity), except for Italian collective investment vehicles ("**OICR**"), as distributions of Capital Reserves qualify as profits to the extent that the distributing company has profits for the period and retained profits (except for any portion thereof earmarked to a tax-deferred reserve). The sums classified as profits should be subject to the same regime described above for dividends. The sums received as distributions of Capital Reserves, net of any amounts that qualify as profits, shall reduce the tax basis of the Shares. Moreover, the Capital Reserves distributed in excess in respect of the tax basis of the Shares held by the investors constitute dividends for tax purposes and should be subject to the same regime described above.

Italian pension funds and OICR (other than Real Estate OICR)

Based on a systematic interpretation of the statute, the sums received by Italian pension funds subject to the tax treatment provided by Article 17 of Decree 252/2005, as distributions of Capital Reserves should contribute to determine their net annual accrued management result for the tax year of the distribution, subject to substitute tax of 20% as increased by the Finance Act 2015. The value of the shareholdings at the end of the same tax year must also be included in the calculation of the annual accrued management result of the above mentioned pension funds. According to articles 88-99 of the Finance Act 2017, published in the Official Gazette No. 297, Ordinary Supplement No. 57, witholding tax on dividends (pursuant to article 27 of Decree 600/73) and substitute tax on profits derived from shares deposited in Monte Titoli S.p.a. (pursuant to article 27-ter of Decree 600/73) are not applied to the profits paid to Italian pension funds derived from qualified investments representing 5% of total assets resulting from the balance sheet of the previous year, and held for at least 5 years.

Any sum received by OICR that are set up in Italy and that are subject to regulatory supervision (other than Real Estate OICR) by way of the distributions of Capital Reserves should not be taxable at the level of the OICR.

Profits derived by the holders of the aforementioned OICR realized upon sale, redemption, liquidation as well as upon periodic distributions are subject to the tax regime provided for by Article 26—*quinquies* of Decree 600/73.

Non-Italian tax residents without permanent establishment within the Italian territory

For non-Italian tax residents (whether individuals or corporations) without permanent establishment in Italy, as determined for Italian tax purposes, or with a permanent establishment in Italy to which the shareholding is not effectively connected, from an Italian tax standpoint, the nature of the sums received as distributions of Capital Reserves shall be the same as that described for individuals not engaged in business activity who are tax resident in Italy. Similarly to what has been described for individuals and corporations resident in Italy for tax purposes, the sums received as distributions of Capital Reserves, net of any amounts that qualify as profits, shall reduce the tax basis of the Shares by an equal amount. Moreover, the Capital Reserves distributed in excess in respect of the tax basis of the Shares held by the investors constitute dividends for tax purposes and should be subject to the same regime described above.

Non-Italian tax residents with permanent establishment within the Italian territory

For non-Italian tax residents that hold the shareholding through a permanent establishment in Italy, as determined for Italian tax purposes, to which the shareholding is effectively connected, the sums received as distributions of Capital Reserves are subject to tax at the level of the permanent establishment, according to the same tax regime as described for companies and entities referred to in Article 73(1)(a)-(b) of TUIR.

Italian Real Estate OICR

Sums received as distributions of Capital Reserves by Italian Real Estate OICR are not subject to IRES or IRAP at the level of the Real Estate OICR. However, income realized by Italian Real Estate OICR is attributed *pro rata* to Italian tax resident unitholders, irrespective of any actual distribution, on a tax transparency basis if such unitholders are not institutional investors and hold units / shares in the Real Estate OICR representing more than 5% of the Real Estate OICR's net asset value.

Persons exempt from IRES

The sums received as distributions of Capital Reserves, net of any amounts that qualify as profits, by Italian tax residents exempt from IRES are not subject to any withholding or substitute tax and shall reduce the tax basis of the Shares as recognized for tax purposes by an equal amount. Distributions out of Capital Reserves that are in excess of the holders' tax basis in the Shares are treated as dividends for tax purposes.

Tax regime for capital gains realized upon transfer of shares

Italian tax resident individuals not engaged in business activities

Capital gains, realized by Italian tax resident individuals on Shares that are not owned in connection with the carrying out of a business activity, upon transfer for consideration of shareholdings in companies, as well as of securities or rights whereby the aforesaid shareholdings can be acquired, are subject to a different tax regime depending on whether they are realized upon Transfer of Qualified Holdings or not.

Transfer of Non-Qualified Holdings.

Capital gains on Non-Qualified Holdings are subject to a 26% substitute tax. The taxpayer may opt for one of the following three tax regimes:

- Taxation under tax return regime ("*regime della dichiarazione*"). Under the tax return regime, which is the standard regime for taxation of capital gains realized by Italian tax resident individuals on Shares that are not owned in connection with the carrying out of a business activity, substitute tax on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any relevant incurred capital loss of the same nature, realized pursuant to all disposals of shareholdings carried out during any given tax year. Italian tax resident individuals holding the Shares not in connection with the carrying out of business activity must report overall capital gains realized in any tax year, net of any relevant incurred capital loss of the same nature, in the annual tax return to be filed for such year and pay substitute tax on such gains together with any income tax due for such year. Capital losses in excess of capital gains may be carried forward and offset against capital gains of the same nature realized in any of the four following tax years. The use of capital losses realized until June 30, 2014 are subject to a cap. In particular, capital losses may be carried forward and offset against capital gains of the same nature realized from July 1, 2014 for an overall amount of 76.92%. The tax return method is mandatory in the event that the taxpayer does not choose one of the two alternative regimes mentioned in items (b) and (c) below.
- Non-discretionary investment portfolio ("*risparmio amministrato*") regime (optional). Pursuant to Article 6 of Decree 461, Italian tax resident individuals holding Shares not in connection with the carrying out of business activity may elect to pay 26% substitute tax separately on capital gains realized on each transfer of Shares. Such separate taxation of capital gains is allowed subject to (i) the Shares being managed or in custody with Italian banks, SIMs or certain authorized financial intermediaries; and (ii) an express election for the *risparmio amministrato* regime being made in writing in due time by the relevant shareholder. Under the *risparmio amministrato* regime, the financial intermediary is responsible for accounting for substitute tax in respect of capital gains realized on each transfer of the Shares (as well as in respect of capital gains realized at revocation of its mandate), net of any relevant incurred capital loss of the same nature, and is required to pay the relevant amount to the Italian tax authority on behalf of the taxpayer, by deducting a corresponding amount from proceeds to be credited to the shareholder or using funds provided by the shareholder for this purpose. Under the *risparmio amministrato* regime, where a transfer of Shares results in capital loss, such capital loss may be carried forward and offset against capital gains of the same nature realized within the same relationship of deposit in the same tax year or in the following tax years up to the fourth. The use of capital losses realized until June 30, 2014 are subject to a cap. In particular, capital losses may be carried forward and offset against capital gains of the same nature realized from July 1, 2014 for an overall amount of: 76.92%. Under the *risparmio amministrato* regime, the shareholder is not required to declare capital gains in its annual tax declaration.
- Discretionary investment portfolio ("*risparmio gestito*") regime (optional). Pursuant to Article 7 of Decree 461, any capital gains accrued on Shares owned not in connection with the carrying out of business activity by Italian tax resident individuals who have entrusted the management of their financial assets, including the Shares, to an authorized intermediary and have elected for the *risparmio gestito* regime will be included in the computation of the annual increase in value of the managed

assets accrued, even if not realized, at year end, subject to 26% substitute tax to be applied on behalf of the taxpayer by the managing authorized intermediary. Under the *risparmio gestito* regime, any decrease in value of the managed assets accrued at year end may be carried forward and offset against any increase in value of the managed assets accrued in any of the four following tax years. The use of decreases in value realized until June 30, 2014 are subject to a cap. In particular, decreases in value of the managed assets may be carried forward and offset against any subsequent increase in value accrued as of July 1, 2014 for an overall amount of 76.92%. Under the *risparmio gestito* regime, the shareholder is not required to report capital gains realized in its annual tax declaration.

Transfer of Qualified Holdings.

Capital gains realized upon Transfer of Qualified Holdings by individuals who are tax resident in Italy, on Shares that are not owned in connection with the carrying out of a business activity, contribute to determine the overall income of the individuals taxable in Italy limited to 49.72% of their amount. If the Transfer of Qualified Holdings generates a capital loss, 49.72% of such a loss may be deducted from 49.72% of any capital gains of the same nature subsequently generated, within the fourth subsequent tax period, on condition that such capital loss is recorded in the income tax return referred to the tax period in which it is realized.

Italian tax resident individuals engaged in business activity, società in nome collettivo, società in accomandita semplice and similar partnerships as referred to in Article 5 of TUIR

Capital gains realized by Italian tax resident individuals holding shares in connection with a business activity, *società in nome collettivo*, *società in accomandita semplice* and similar partnerships as referred to in Article 5 of TUIR, upon transfer for consideration of Shares contribute in their full amount to determine their taxable business income, subject to tax in Italy under the ordinary regime.

Capital losses (or other negative items of income) derived by Italian tax resident individuals holding shares in connection with a business activity, *società in nome collettivo*, *società in accomandita semplice* and similar partnerships as referred to in Article 5 of TUIR, upon transfer for consideration of the Shares would be fully deductible from the transferring party's taxable income.

However, where the conditions described in items (a), (b), (c) and (d) of paragraph "*Italian tax resident companies and entities referred to in Article 73*(*1*)(*a*)-(*b*) *of TUIR*" below are satisfied, capital gains contribute to determine business income taxable in Italy limitedly to 49.72% of their amount. Capital losses realized on holdings with the requirements referred to in items (a), (b), (c) and (d) of paragraph "*Italian tax resident companies and entities referred to in Article 73*(*1*)(*a*)-(*b*) *of TUIR*" below are partially deductible, similarly to what is provided for the taxation of capital gains.

For purposes of determining capital gains and capital losses that are relevant for tax purposes, the tax basis of the Shares transferred is reduced by any write-down that the shareholder has deducted in previous tax years for tax purposes.

Italian tax resident companies and entities referred to in Article 73(*1*)(*a*)-(*b*) *of TUIR*

Capital gains realized by the companies and entities referred to in Article 73(1)(a)-(b), of TUIR, including, *inter alia*, Italian tax resident limited liability companies and public and private entities whose sole or primary purpose is to engage in commercial activity upon transfer for consideration of Shares contribute to determine the taxable business income in their full amount in the tax period in which they are realized or, upon election, in equal installments in the same tax period and a maximum of four subsequent tax periods. The election for the installment computation is only available if the Shares have been held for no less than three years and booked as fixed financial assets (*immobilizzazioni finanziarie*) in the last three financial statements.

However, pursuant to Article 87 of TUIR ("participation exemption" regime), capital gains realized upon transfer of Shares do not contribute to determine the taxable income as they are exempt in an amount equal to 95%, if the shareholding meets the following requirements:

(a) uninterrupted ownership as of the first day of the twelfth month prior to the transfer, treating the shares acquired on the most recent date as transferred first (on a "last in first out" basis);

(b) classification in the category of fixed financial assets in the first statement of financial position prepared during the period of ownership. In case of holders that draft their financial statements in accordance with IAS/IFRS international accounting standards the shares not accounted as "held for trading" are deemed as fixed financial assets;

(c) residence for tax purposes of the participated entity in a country or territory other than those having a privileged tax regime and included in the Decree or Provision issued pursuant to Article 167(4), of TUIR. Alternatively, proof must be given (also by way of a tax ruling) that, as of the beginning of the holding period, the Shares were not held with the purposes of allocating incomes in countries or territories other than those identified in the aforesaid Decree or Provision; and

(d) the participated entity engages in a commercial business according to the definition set forth in Article 55 of TUIR; however this requirement is not relevant for holdings in companies whose securities are traded on regulated markets.

The requirements mentioned in (c) and (d) must be met at the time that the capital gain is realized, without interruption from at least the start of the third tax period before they are realized. The transfer of shares belonging to the category of fixed financial assets and those belonging to the category of inventory are to be considered separately with reference to each category. If the aforementioned requirements are met, the capital losses made on holdings are not deductible from business income.

For purposes of determining capital gains and capital losses that are relevant for tax purposes, the tax basis of the Shares transferred is reduced by any write-down that the shareholder has deducted in previous tax years.

Capital losses and negative differences between revenues and costs for shares that do not meet the requirements for participation exemption are not relevant up to the non-taxable amount of dividends, or of accounts thereof, received in the thirty-six months prior to their transfer. This provision applies with reference to shares acquired during the 36-month period prior to the realization of capital losses or negative differences, *provided that* the conditions under (c) and (d) above are met. The anti-avoidance rule does not apply to holders that draft their financial statements in accordance with IAS/IFRS international accounting standards referred to in Regulation (EC) No. 1606/2002 of the European Parliament and Council of July 19, 2002. When the amount of the aforementioned capital losses and negative differences deriving from transactions on shares traded on regulated markets is greater than €50,000.00, including after several transactions, the taxpayer must report the data and the information regarding the transaction in its annual income tax return.

Furthermore, for capital losses of more than €5,000,000.00, deriving from transactions on shares constituting fixed financial assets, the taxpayer must report the data and the information in its annual income tax return (also in case such capital losses are realized as a consequence of a number of transactions). Holders that draft their financial statements according to IAS / IFRS international accounting standards are under no such obligation.

For some types of companies and under certain conditions, capital gains on shares are considered in determining the respective net value of production subject to IRAP.

Italian tax resident non-commercial entities referred to in Article 73(1)(c) of TUIR and non-commercial partnerships referred to in Article 5 of TUIR

Capital gains realized, outside the scope of business activity, by Italian tax resident non-commercial entities (other than OICR) and non-commercial partnerships referred to in Article 5 of TUIR are subject to tax under the same rules as provided for capital gains realized by Italian tax resident individuals on Shares that are not owned in connection with the carrying out of a business activity.

Italian pension funds and OICR (other than Real Estate OICR)

Capital gains on Shares held by Italian pension funds as referred to in Decree 252/2005 are to be included in the calculation of their annual accrued management result subject to substitute tax at a rate of 20% (as increased by the Finance Act 2015). As of fiscal year 2015, as provided by the Finance Act 2015, a 9% tax credit is granted to the pension funds on income from medium and long-term financial investment (as identified by Ministerial Decree of June 19, 2015, published in the Official Gazette No. 175 of July 30, 2015) included in the annual result of the pension fund. The tax credit should be disclosed in the pension fund's tax return and could be used from the first year following the investment.

Capital gains on Shares held by OICR that are set up in Italy and that are subject to regulatory supervision (other than Italian Real Estate OICR) are not subject to tax at the level of the OICR.

Profits derived by the holders of the aforementioned OICR realized upon sale, redemption, liquidation as well as upon periodic distributions are subject to the tax regime provided for by Article 26—*quinquies* of Decree 600/73.

Italian Real Estate OICR

Capital gains on the Shares held by Italian Real Estate OICR are not subject to IRES or IRAP at the level of the Real Estate OICR. However, income realized by Italian Real Estate OICR is attributed *pro rata* to Italian tax resident unitholders, irrespective of any actual distribution, on a tax transparency basis if such unitholders are not institutional investors and hold units/shares in the Real Estate OICR representing more than 5% of the Real Estate OICR's net asset value.

Non-Italian tax residents with permanent establishment within the Italian territory

With respect to non-Italian tax residents that hold the shareholding through a permanent establishment in Italy, as determined for Italian tax purposes, to which the shareholding is effectively connected, capital gains realized upon disposal of the shareholding contribute to determine the permanent establishment's income according to the tax regime provided for the capital gains realized by companies and entities as referred to in Article 73(1)(a)-(b) of TUIR, which are residents of Italy for tax purposes, as summarized above sub paragraph "*Italian resident companies and entities referred to in Article 73*(*1*)(*a*)-(*b*) *of TUIR*".

Non-Italian tax residents without permanent establishment within the Italian territory

(a) Non-Qualified Holdings. Capital gains realized by non-Italian tax residents without permanent establishment in Italy, as determined for Italian tax purposes, or with a permanent establishment in Italy to which the shareholdings are not effectively connected, upon transfer for consideration of shareholdings not qualifying as Transfer of Qualified Holdings in Italian companies traded on regulated markets (such as the Company) are not subject to taxation in Italy, even if the Shares are held in Italy and regardless of the provisions set forth by any applicable double tax treaty.

    In such a case, in order to benefit from this exemption from Italian taxation on capital gains, non-Italian tax resident shareholders who hold the Shares with an Italian authorized financial intermediary and elect to be subject to the *risparmio gestito* regime or are subject to the *risparmio amministrato* regime, may be required to produce in due time to the Italian authorized financial intermediary an appropriate affidavit that they are not resident in Italy for tax purposes.

(b) Qualified Holdings. Capital gains realized by non-Italian tax residents with no permanent establishment in Italy, as determined for Italian tax purposes, or with a permanent establishment in Italy to which the shareholdings are not effectively connected upon Transfer of Qualified Holdings, are included in the recipient's income taxable in Italy according to the same rules applicable to Italian tax resident individuals not engaged in business activity. Such capital gains are subject to taxation in Italy only under the tax return regime, as they are not admitted to the risparmio amministrato or risparmio gestito regimes. However, the provisions set forth by double taxation treaties entered into by Italy may apply, where more favorable.

Transfer tax

Contracts or other legal instruments relating to the transfer of securities (including the transfer of the Shares) are subject to registration tax as follows: (i) notary deeds (*atti pubblici*) and private deeds with notarized signatures (*scritture private autenticate*) executed in Italy must mandatorily be registered with the Italian tax authorities and are subject to €200.00 registration tax; and (ii) private deeds (*scritture private*) are subject to €200.00 registration tax only if they are voluntarily filed for registration with the Italian tax authorities or if the so-called "*caso d'uso*" or "*enunciazione*" occurs.

Financial Transaction Tax

Transfer of ownership of the Shares

Law No. 228 of December 24, 2012, Article 1, paragraphs 491 to 500, introduced a financial transaction tax ("**FTT**") applicable, *inter alia*, to the transfers of the ownership of shares and participating financial instruments (defined by Article 2346 of the Italian Civil Code) issued by companies resident in Italy, as well as securities representing equity investments such as American Depositary Receipts and Global

Depositary Receipts, regardless of the place of residence of the issuer and of the place where the contract has been concluded.

The residence of the issuer for the purposes of FTT is the place where the issuer has its registered office.

FTT shall apply to transfers of ownership of shares executed from March 1, 2013, if traded after February 28, 2013. For the purposes of the application of the FTT, the transfer of ownership of the shares deposited in a centralized deposit system managed by Monte Titoli (as the Shares are) have taken place on the date of their settlement. Date of settlement shall mean the date of registration of the transfers following the settlement of the relevant transaction. As an alternative and subject to the taxpayer's consent, the person liable to the payment of the FTT can assume the date of liquidation declared in the contract as date of the transaction.

The FTT rate applicable to the transfers of ownership of shares is 0.20% of the value of the transaction, reduced to half (0.10%) for the transactions executed on regulated markets or in multilateral trading facilities. Such reduction also applies in the case of purchase of shares through a financial intermediary, interposed between the parties of the transaction, purchasing such shares on a regulated market or in a multilateral trading facility, *provided that* price, total number and date of settlement of buying and selling transactions coincide. The reduction does not apply to the transfer of ownership of shares resulting from the settlement of derivatives instruments and other securities as defined by Article 1(1) and (1—*bis*) (c)-(d) of Consolidated Financial Act.

FTT taxable basis is the value of the transaction determined, for each liable person, on the basis of the daily net balance of the transactions calculated with reference to the number of shares daily traded and relating to the same financial instrument. The calculation of the net balance shall be made by the person liable for FTT payments. As an alternative, FTT is calculated on the paid consideration.

The tax is due by the subjects to which the ownership of shares is transferred, regardless of their place of residence and of the place where the contracts are concluded. For the purposes of FTT, the purchase made through intermediaries that buy in their own name but on behalf of another person are imputed to the person on behalf of whom the purchase has been made (i.e. the final purchaser).

Any person and entity involved, for any reason, in the execution of a contract that are located in States or territories with no agreements in force with Italy for the purposes of the exchange of information or the assistance in the collection of tax credits, identified on March 1, 2013 and March 29, 2013 by a regulation of the Italian tax authorities, are considered the final purchasers for all effects.

The FTT will be paid either by the intermediaries or the other subjects (*e.g.*, banks, trusts and investment companies referred to in Article 18 of Consolidated Financial Act) involved in the execution of the transaction or by the taxpayer, in either case on or before the 16th day of the month following the month during which ownership was transferred. Intermediaries and other non-resident subjects having no permanent establishment in Italy may appoint a tax representative among the persons indicated in Article 23 of Decree 600/73. Where more intermediaries are involved in the execution of the transfers, FTT is paid by the intermediary who receives the order to execute the transaction directly from the final purchaser. Where the purchaser is a bank, a trust or an investment company referred to in Article 18 of Consolidated Financial Act, such subject directly provides for the FTT's payment.

FTT does not apply to transfers of ownership of shares executed by way of inheritance or gift. The tax does not apply, *inter alia*, also to: (i) transactions related to the issuing and the cancellation of shares, (ii) transfers of the ownership of newly issued shares also through the exercise of option rights by the issuer's shareholders, (iii) temporary transfers of ownership referred to "securities financing transactions" of paragraph (10), Article 2 of Commission Regulation (EC) No. 1287/2006, (iv) transfers of ownership of shares executed by companies between which there exists a relationship of control referred to in Article 2359, first paragraph, No. 1) and No. 2), and second paragraph of the Italian Civil Code or which are controlled by the same company, and (iv) transfers of ownership of shares arising from restructuring operations under Article 4 of Council Directive 2008/7/EC of February 12 2008 or from mergers and divisions of collective investment undertakings; (v) the assignment of equities against distribution of profits, reserves or reimbursement of share capital.

FTT does not also apply to the transfers of the ownership of shares traded on regulated markets or in multilateral trading facilities issued by companies with an average market capitalization lower than €500 million, as registered in November of the year preceding the issue of the shares. By December 20 of each year, the Ministry of Economy and Finance shall draw up and publish on its website the list of companies resident in the State territory for the purposes of the exclusion. The exclusion from FTT shall also apply to transfer not executed in regulated markets or in multilateral trading facilities. In case of admission to trading on regulated markets or in multilateral trading facilities, the inclusion in the list is verified as from the year following that for which it is possible to calculate an average market capitalization for the month of November; until this year, a capitalization lower than the capitalization limit of €500 million is assumed.

Moreover, exemption from FTT is granted to:

(a) pension funds subject to supervision under Directive 2003/41/EC and to compulsory social security institutions, set up in one of the EU Member States or in one of the EEA Member States, included in the Italian White List, as well as to other supplementary pension schemes referred to in Decree 252/2005;

(b) the transfers of ownership and the transactions referred to in Article 1(1(m) of the Consolidated Financial Act, classed as "ethical" or "socially responsible" pursuant to Article 117—*ter* of the Consolidated Financial Act;

(c) the transactions executed during market making activities as defined in Article 2(1)(k) of Regulation (EC) No. 236/2012 of the European Parliament and of the Council of March 14, 2012, and in document ESMA/2013/158 of February 1, 2013; and

(d) the transactions executed in the context liquidity assistance activities within the framework of accepted market practices, approved by the financial market authority under Directive 2003/6/EC of the European Parliament and of the Council of January 20, 2003, and under Commission Directive 2004/72/EC of April 29, 2004. FTT does not apply only in the case the subjects that execute such transactions have entered into a contract with the company issuing the financial instruments.

For the transactions referred to in points items (c) and (d) above, the exemption is only granted to those subjects carrying out market-making activities and providing liquidity assistance as indicated therein and only to the transactions executed to carry out such activities. The exemption regime outlined in points (a), (c) and (d) shall apply only for the subject pointed out in such points. As a consequence, the counterparty may be liable to pay FTT.

Exemption from FTT shall also apply to transactions having as counterpart the European Union, the European institutions, the European Central Bank, the European Investment Bank, the central banks of the EU Member States, the central banks and organizations managing, *inter alia*, the official reserves of other States and the bodies or international organizations established in accordance with international agreements enforced in Italy. In relation to these transactions, FTT is not payable by either party.

The FTT is not deductible for income taxes (IRPEF and IRES) purposes, including their substitute taxes, as well as for Italian regional tax on business activities (IRAP) purposes.

High-frequency trading

Starting from March 1, 2013, the transactions effected on the Italian financial market are subject to a tax on high-frequency trading with regard to financial instruments referred to in paragraph "*Transfer of ownership of the Shares*".

Italian financial market means the regulated markets and multilateral trading facilities authorized by CONSOB pursuant to Articles 63 and 77—*bis* of the Consolidated Financial Act.

There shall be deemed to be high-frequency trading those transactions generated by a computer algorithm that automatically determines the decisions relating to the sending, modification and cancellation of orders and of the related parameters that occur at intervals not exceeding half a second.

The tax rate is 0.02% and it is applied, for each trading day, on the value of the cancelled and modified orders exceeding a threshold of 60% of the entered and modified orders.

The tax is payable by the subjects that, by means of the aforementioned algorithms, execute purchase and sale orders and the related modifications and cancellations.

Transfer of the Shares upon death or by gift

Subject to certain exceptions, Italian inheritance and gift tax is generally payable on transfers of assets and rights (including the Shares) (i) by reason of death or gift by Italian tax resident persons (or other transfers for no consideration and the creation of liens on such assets for a specific purpose, including the segregation of assets into a trust), even if the transferred assets are held outside Italy, and (ii) by reason of death or gift by non-Italian tax resident persons, but limited to transferred assets held in Italy. Shares in companies that are tax resident in Italy (because they have their registered office or their place of effective management or their main business purpose in Italy for the greater part of the tax year) are deemed to be held in Italy.

Subject to certain exceptions, transfers of assets and rights (including the Shares) on death or by gift are generally subject to inheritance and gift tax:

- transfers to a spouse or direct descendants or ancestors up to €1,000,000 to each beneficiary are exempt from inheritance and gift tax. Transfers in excess of such threshold will be taxed at a 4% rate on the value of the Shares exceeding such threshold;
- transfers between relatives up to the fourth degree other than siblings, and direct or indirect relatives by affinity up to the third degree are taxed at a rate of 6% on the value of the Shares. Transfers between siblings up to a maximum value of €100,000 for each beneficiary are exempt from inheritance and gift tax; and
- transfers by reason of gift or death to persons other than those described above will be taxed at a rate of 8% on the value of the Shares. If the beneficiary of any such transfer is a disabled individual, whose disability is recognized pursuant to Law No. 104 of February 5, 1992, the tax is applied only on the value of the Shares in excess of €1,500,000 at the rates illustrated above, regardless of the type of relationship between the deceased or donor and the beneficiary.

Stamp duty tax on deposits

Under Article 13(2—*bis*) and (2—*ter*) of the Tariff enclosed to Decree No. 642 of October 26, 1972 ("**Stamp Duty Act**"), a 0.20% stamp duty generally applies on communications and reports that Italian financial intermediaries periodically send to their clients in relation to the financial products that are deposited with such intermediaries. Shares are included in the definition of financial products for these purposes. Communications and reports are deemed to be sent at least once a year even if the Italian financial intermediary is under no obligation to either draft or send such communications and reports.

The stamp duty cannot exceed €14,000.00 for investors other than individuals.

Based on the wording of the law and the implementing decree issued by the Italian Ministry of Finance on May 24, 2012, the 0.20% stamp duty does not apply to communications and reports that the Italian financial intermediaries send to investors who do not qualify as "clients" according to the regulations issued by the Bank of Italy on June 20, 2012. Communications and reports sent to this type of investors are subject to the ordinary €2.00 stamp duty for each copy.

The taxable base of the stamp duty is the market value or-in the lack thereof-the nominal value or the redemption amount of any financial product or financial instruments.

Wealth tax on securities held abroad

Under Article 19 of Decree No. 201 of December 6, 2011, converted with Law No. 214 of December 22, 2011, Italian tax resident individuals holding certain financial products outside of the Italian territory (including potentially the Shares) are required to pay a wealth tax at the rate of 0.2%. The wealth tax applies on the market value at the end of the relevant year or-in the lack of the market value-on the nominal value or redemption value of such financial products held outside of the Italian territory.

Certain Reporting Obligations for Italian tax Resident Holders

Under Law Decree No. 167 of June 27, 1990, individuals, non-business entities and non-business partnerships that are tax resident in Italy and, during the fiscal year, hold financial assets abroad (including possibly the Shares) must, in certain circumstances, disclose these financial assets to the Italian tax authorities in section RW of their income tax return (or if the income tax return is not due, in a proper form that must be filed within the same term as prescribed for the annual income tax return), regardless of the value of such assets. The requirement applies also if the persons above, being not the direct holder of the financial assets, are the actual economic owners thereof for the purposes of anti-money laundering legislation.

No disclosure requirements exist for financial assets (including the Shares) under management or administration entrusted to Italian resident intermediaries (Italian banks, broker-dealers (SIM), fiduciary companies or other professional intermediaries as indicated under Article 1 of Decree No. 167 of June 28, 1990) and for contracts concluded through their intervention, *provided that* the cash flows and the income derived from such assets and contracts have been subjected to Italian withholding tax or substitute tax by such intermediaries.

United States Federal Income Tax Considerations

The following discussion describes certain U.S. federal income tax consequences generally applicable to U.S. Holders (defined below) of the acquisition, ownership and disposition of Offer Shares. This summary applies only to U.S. Holders that acquire Offer Shares in the Offering, hold the Offer Shares as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "**Internal Revenue Code**"), and that have the U.S. dollar as their functional currency. This discussion is based upon the Internal Revenue Code, applicable U.S. Treasury regulations, administrative pronouncements and judicial decisions, in each case as in effect on the date hereof, all of which are subject to change (possibly with retroactive effect). No ruling will be requested from the Internal Revenue Service ("**IRS**") regarding the tax consequences of the acquisition, ownership or disposition of the Offer Shares, and there can be no assurance that the IRS will agree with the discussion set out below. This summary does not address any U.S. tax consequences other than U.S. federal income tax consequences (*e.g.* the estate and gift tax or the Medicare tax on net investment income and does not address any state, local or non-U.S. tax consequences).

The following discussion does not address the tax consequences to any particular investor or to persons in special tax situations such as:

- banks;
- certain financial institutions;
- regulated investment companies;
- real estate investment trusts;
- insurance companies;
- broker dealers;
- traders that elect to mark-to-market;
- tax-exempt entities;
- individual retirement accounts and other tax-deferred accounts;
- persons liable for alternative minimum tax;
- U.S. expatriates;
- persons holding an Offer Share as part of a straddle, hedging, conversion or other integrated transaction;
- persons that directly, indirectly or constructively own 10% or more of the total voting power or value of all of our outstanding stock;
- persons that are resident or ordinarily resident in or have a permanent establishment in a jurisdiction outside the United States;
- persons who acquired the Offer Shares pursuant to the exercise of any employee share option or otherwise as compensation; or
- persons holding Offer Shares through partnerships or other pass-through entities.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE INVESTORS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF THE PURCHASE,

OWNERSHIP AND DISPOSITION OF THE OFFER SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL AND NON-U.S. TAX LAWS, TAX TREATIES AND POSSIBLE CHANGES IN TAX LAW.

The discussion below of the U.S. federal income tax consequences to "**U.S. Holders**" will apply if you are a beneficial owner of Offer Shares and you are, for U.S. federal income tax purposes,

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the supervision of a court within the United States and the control of one or more U.S. persons or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If you are a partner in an entity taxable as a partnership that holds Offer Shares, your tax treatment generally will depend on your status and the activities of the partnership. Partnerships considering an investment in the Offer Shares and partners in such partnerships should consult their tax advisors regarding the U.S. federal income tax consequences of acquiring, owning and disposing of the Offer Shares.

Dividends

Subject to the passive foreign investment company ("**PFIC**") rules discussed below, the gross amount of distributions made by us with respect to the Offer Shares (including the amount of any Italian taxes withheld therefrom) generally will be included in your gross income as foreign source dividend income to the extent that such distributions are paid out of our current or accumulated earnings and profits as determined under U.S. federal income tax principles. To the extent, if any, that the amount of any such distribution exceeds our current or accumulated earnings and profits, it will be treated first as a tax-free return of your tax basis in the Offer Shares and thereafter as capital gain. However, we do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, you should expect that a distribution will generally be reported to you as a dividend for U.S. federal income tax purposes. The dividends will not be eligible for the dividends received deduction available to corporations in respect of dividends received from other U.S. corporations. With respect to non-corporate U.S. Holders, including individual U.S. Holders, dividends may be "qualified dividend income", which is taxed at the lower applicable capital gains rate *provided that* (1) we are eligible for the benefits of the Convention Between the Government of the United States of America and the Government of the Republic of Italy for the Avoidance of Double Taxation with respect to Taxes on Income and the Prevention of Fraud or Fiscal Evasion (the "**Treaty**"), (2) we are not classified as a PFIC (as discussed below) for either our taxable year in which the dividend was paid or our preceding taxable year, (3) you have held the Offer Shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date, and (4) you are not under an obligation to make related payments with respect to positions in substantially similar or related property. Although there can be no assurances, we expect to be eligible for the benefits of the Treaty. You should consult your own tax advisors regarding the availability of the lower rate for dividends paid with respect to Offer Shares.

For U.S. federal income tax purposes, you will be treated as having received the amount of any Italian taxes withheld with respect to a payment of dividends and as then having paid over the withheld taxes to the Italian taxing authorities. As a result of this rule, the amount of dividend income you are required to include in gross income for U.S. federal income tax purposes with respect to a payment of dividends may be greater than the amount of cash actually received (or receivable) by you with respect to the payment.

Subject to applicable limitations, Italian taxes withheld from dividends on the Offer Shares at a rate not exceeding the rate provided in the Treaty (if applicable) will be creditable against your U.S. federal income tax liability (or at your election, may be deducted in computing taxable income if you have elected to deduct all foreign income taxes for the taxable year). The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific "baskets" of income. For this purpose, the dividends should generally constitute "passive category income," or in the case of certain U.S. Holders, "general category income." The rules governing foreign tax credits are complex, and you should consult your tax adviser regarding the creditability of foreign taxes based on your particular circumstances.

Dividends paid in euros will be included in your income in a U.S. dollar amount determined by reference to the spot rate of exchange in effect on the date of actual or constructive receipt, whether or not the euros are converted into U.S. dollars at that time. If the euros so received are converted into U.S. dollars on the date of receipt, you generally will not recognize foreign currency gain or loss on such conversion. If the euros are not converted into U.S. dollars on the date of receipt, you will have a basis in the euros equal to their U.S. dollar value on the date of receipt. Gain or loss, if any, realized on the subsequent conversion or other disposition of such euros generally will be U.S. source ordinary income or loss.

Sale or other taxable disposition of Offer Shares

Subject to the PFIC rules discussed below, upon a sale or other taxable disposition of Offer Shares, you generally will recognize a capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized and your adjusted tax basis in such Offer Shares. Any such gain or loss generally will be U.S. source gain or loss and will be treated as long-term capital gain or loss if your holding period in the Offer Shares exceeds one year. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, any long-term capital gain generally will be subject to U.S. federal income tax at preferential rates. The deductibility of capital losses is subject to significant limitations.

In addition, because capital gains generally will be treated as U.S. source gain, in the event that you are subject to Italian income tax upon the sale or other taxable disposition of the Offer Shares, you may not be able to credit such Italian income tax against your U.S. federal income tax liability with respect to the gain you realize on such sale or other taxable disposition unless you have other foreign source income for the year in the appropriate U.S. foreign tax credit limitation basket.

If the consideration you receive upon a sale or other taxable disposition of Offer Shares is not paid in U.S. dollars, the amount realized will generally be the U.S. dollar value of the payment received, determined by reference to the spot rate of exchange on the date of the sale or other taxable disposition. If the Offer Shares are treated as traded on an "established securities market", a cash basis taxpayer or an electing accrual basis taxpayer will determine the U.S. dollar value of the amount realized by translating the amount received at the spot rate of exchange on the settlement date of the sale or other taxable disposition. If you are an accrual basis U.S. Holder and make the election described above, it must be applied consistently from year to year and cannot be revoked without the consent of the IRS. If the U.S. dollar value of the non-U.S. currency taken into account by you in determining your amount realized differs from the U.S. dollar value of such non-U.S. currency when received, you will have exchange gain or loss. You will have a tax basis in any non-U.S. currency received in respect of the disposition of its shares equal to its U.S. dollar value on the settlement date. Any gain or loss realized by you on a subsequent conversion or other disposition of the non-U.S. currency will generally be ordinary income or loss.

Your initial tax basis in your Offer Shares generally will equal the cost of such Offer Shares. If you use non-U.S. currency to purchase shares, the cost of the Offer Shares will be the U.S. dollar value of the non-U.S. currency purchase price determined by reference to the spot rate of exchange on the date of purchase. However, if the Offer Shares are treated as traded on an established securities market and you are either a cash basis taxpayer or an accrual basis taxpayer who has made the special election described above, you will determine the U.S. dollar value of the cost of such Offer Shares by translating the amount paid at the spot rate of exchange on the settlement date of the purchase.

Passive foreign investment company

In general, a non-U.S. corporation will be classified as a PFIC for U.S. federal income tax purposes in any taxable year if at least (i) 75% of its gross income is classified as "passive income" or (ii) 50% of its assets (determined on the basis of a quarterly average) produce or are held for the production of passive income. For these purposes, cash is considered a passive asset. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions. For the purposes of determining if the non-US corporation is a PFIC, the non-U.S. corporation is treated as earning its proportionate share of any income and owning its proportionate share of any assets of any corporation in which it directly or indirectly holds 25% or more (by value) of the stock.

An exception exists for income derived by non-U.S. corporations from the active conduct of a banking business that meets certain requirements described in a notice published by the IRS in 1989 (Notice 89-81, the "**Notice**") and proposed U.S. Treasury regulations published in 1995 (the "**Proposed Regulations**") to be treated as an "active foreign bank". Under the Notice, a non-U.S. bank will be treated as an active foreign bank, if, among other things, it derives at least 60% of its gross income from "*bona fide*" banking activities, which include the acceptance of deposits from unrelated persons which represent at least 50% of its total liabilities for the taxable year, and making loans to unrelated persons which represent at least 50% of the average principal of all loans outstanding during the taxable year.

Subsequent to the issuance of the Notice, the U.S. Department of the Treasury issued the Proposed Regulations that are not yet in effect, which would markedly modify the Notice and which, if finalized, would apply retroactively to taxable years beginning after December 31, 1994. In order to be an active bank under the Proposed Regulations, a non-U.S. bank must meet certain licensing, deposit taking, and lending and gross income requirements. A non-U.S. corporation satisfies the deposit taking test under the Proposed Regulations, if among other things, the amount of deposits shown on the corporation's balance sheet is substantial. The Proposed Regulations provide that whether the amount of deposits on a corporation's balance sheet is substantial depends on all the facts and circumstances, including whether the capital structure and funding of the bank as a whole are similar to that of comparable banking institutions engaged in the same types of activities and subject to regulation by the same banking authorities.

It is not possible to definitively determine whether the amount of the deposits shown on our balance sheet is substantial and, accordingly, whether we satisfy the deposit taking test under the Proposed Regulations. In the absence of any controlling authority concerning the deposit taking test, there is a risk that we would not be treated as an active foreign bank and, therefore, would be treated as PFIC.

However, if we satisfy the deposit taking test, we believe that we would qualify as an active bank under the Proposed Regulations, assuming that the Proposed Regulations are finalized in their current form, based upon our regulatory status under Italian law, our banking activities performed in the ordinary course of business, the proportion of our income derived from activities that are "*bona fide*" banking activities for U.S. federal income tax purposes. However, even if we are not treated as a PFIC for our 2016 taxable year (the latest period for which the determination can be made) there can be no assurance that we would not be treated as a PFIC for the current taxable year or for any foreseeable future taxable year because a PFIC determination is a factual determination that must be made following the close of each taxable year and is based on, among other things, the market value of our assets, and because the Proposed Regulations (although retroactive in application) are not currently in force. If we were to be a PFIC in any taxable year, materially adverse U.S. federal income tax consequences could result for you.

If we are considered a PFIC at any time that you hold Offer Shares, unless you are eligible to, and elect to be taxed annually on a mark-to-market basis with respect to the Offer Shares, as described below, any gain recognized by you on a sale or other disposition of the Offer Shares, as well as the amount of an "excess distribution" (defined below) received by you, would be allocated ratably over your holding period for the Offer Shares. The amounts allocated to the taxable year of the sale or other disposition (or the taxable year of receipt, in the case of an excess distribution) and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed. For purposes of these rules, an excess distribution is the amount by which any distribution received by you on your shares in a taxable year exceeds 125% of the average of the annual distributions on the shares received during the preceding three years or your holding period, whichever is shorter. If we are treated as a PFIC and, at any time, we invest in non-U.S. corporations that are classified as PFICs ("**Subsidiary PFICs**"), you generally will be deemed to own, and also would be subject to the PFIC rules with respect to your indirect ownership interest in that Subsidiary PFIC. If we are treated as a PFIC, you could incur liability for the deferred tax and interest charge described above if either (1) we receive a distribution from, or dispose of all or part of our interest in, the Subsidiary PFIC or (2) you dispose of all or part of our Offer Shares.

Certain elections may be available that would result in alternative treatments (such as mark-to-market treatment as discussed below) of the shares, which in certain circumstances might mitigate the impact of the tax consequences. We do not intend to provide the information necessary for U.S. Holders of the Offer Shares to make qualified electing fund elections, which, if available, would result in tax treatment different from the general tax treatment for an investment in a PFIC described above.

A U.S. Holder of stock in a PFIC may make a "mark-to-market" election, provided the PFIC stock is "marketable stock" as defined under applicable Treasury regulations (*i.e.*, "regularly traded" on a "qualified exchange" or "other market"). Under applicable Treasury regulations, a "qualified exchange" includes a national securities exchange that is registered with the SEC or the national market system established under the Exchange Act, or a non U.S. securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located and meets certain trading, volume, listing, financial disclosure and other requirements. Under applicable Treasury regulations, PFIC stock traded on a qualified exchange is regularly traded on such exchange for any calendar year during which such stock is traded, other than in *de minimis* quantities, on at least 15 days during each calendar quarter. We cannot assure you that the Offer Shares will be treated as "marketable stock" for any taxable year.

If a "mark-to-market" election is available and you validly make such an election effective as of the beginning of your holding period, you generally will not be subject to the adverse tax consequences relating to an excess distribution or gain described above. Instead, you generally will be required to take into account the difference, if any, between the fair market value of, and your adjusted tax basis in, your Offer Shares at the end of each taxable year as ordinary income or, to the extent of any net mark-to-market gains previously included in income, ordinary loss, and to make corresponding adjustments to the tax basis of its Offer Shares. In addition, any gain from a sale, exchange or other disposition of Offer Shares will be treated as ordinary income, and any loss will be treated as ordinary loss to the extent of any net mark-to-market gains previously included in income. However, a mark-to-mark election with respect to our Offer Shares will not apply with respect to our interest in a Subsidiary PF1C. A U.S. Holder will not be able to make a mark-to-market election with respect to any Subsidiary PFIC (unless the shares of such subsidiary PFIC are themselves marketable stock). As such, a mark-to-market election with respect to the Offer Shares may not prevent a U.S. Holder from being subject to the excess distribution regime with respect to at least a portion of its investment. You should consult your own tax adviser with respect to the availability and tax consequences of a mark-to-market election with respect to our Offer Shares and your indirect interest in Subsidiary PF1C.

Under the PFIC rules, if we were considered a PFIC at any time that you hold the Offer Shares, we would continue to be treated as a PFIC with respect to your investment unless (i) we cease to be a PFIC and (ii) you have made a "deemed sale" election under the PFIC rules. If we are considered a PFIC, you will also be subject to information reporting requirements on an annual basis. You should consult your own tax advisor about the potential application of the PFIC rules to an investment in the Offer Shares.

Information reporting and backup withholding

In general, dividend payments and proceeds paid from the sale or other taxable disposition of the Offer Shares may be subject to information reporting to the IRS. In addition, you may be subject to backup withholding on cash payments received in connection with dividend payments and proceeds from the sale or other taxable disposition of Offer Shares made within the United States or through certain U.S.-related financial intermediaries unless you (i) are an exempt recipient and, when required, establish this exemption, or (ii) provide a correct taxpayer identification number, certify as to no loss of exemption from backup withholding and otherwise comply with applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. Rather, any amount withheld under the backup withholding rules will be creditable or refundable against your U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

Information with respect to foreign financial assets

Certain U.S. Holders who are individuals and certain entities may be required to report information relating to our Offer Shares, subject to certain exceptions (including an exception for Offer Shares held in accounts maintained by certain financial institutions). You should consult your tax advisor regarding your reporting obligations with respect to your ownership and disposition of our Offer Shares.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO YOU. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF AN INVESTMENT IN THE OFFER SHARES UNDER YOUR OWN CIRCUMSTANCES.

TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Offer Shares. Terms used in this section that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein.

Investors in the United States

Each purchaser of the Offer Shares in the United States will be deemed to have represented and agreed as follows:

(i) The purchaser: (i) is a QIB as defined in Rule 144A or a broker-dealer acting for the account of a QIB, (ii) is aware, and each beneficial owner of such Offer Shares has been advised, that the sale to it is being made in reliance on Rule 144A or another exemption from registration under the Securities Act, (iii) is acquiring such Offer Shares for its own account or for the account of a QIB, (iv) is acquiring the shares for investment and not with a view to any resale or distribution (within the meaning of the U.S. securities laws) of any such Offer Shares; and (v) is aware that the Offer Shares are "restricted securities" within the meaning of the Securities Act and may not be deposited into any unrestricted depositary facility, unless at the time of such deposit such Offer Shares are no longer restricted securities under the Securities Act.

(ii) The purchaser is aware that the Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and are being offered in the United States only in transactions not involving any public offering in the United States within the meaning of the Securities Act.

(iii) The purchaser understands and agrees that such Offer Shares may not be reoffered, resold, pledged or otherwise transferred except: (a)(i) to a person whom the seller and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (ii) outside the United States in an offshore transaction complying with Regulation S, (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder, or (iv) pursuant to an effective registration statement under the Securities Act, and (b) in each case in accordance with any applicable securities laws of any state or territory of the United States or any other relevant jurisdiction. Such purchaser acknowledges that the Offer Shares offered and sold hereby are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of the Offer Shares.

(iv) It, and each other QIB, if any, for whose account it is acquiring Offer Shares, in the normal course of business, invests in or purchases securities similar to the securities offered hereby, has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of purchasing any of the Offer Shares for an indefinite period of time and is able to bear such risk for an indefinite period.

(v) It has: (i) conducted its own investigation with respect to the Company and the Offer Shares, (ii) received all information that it believes is necessary or appropriate in connection with an investment in the Offer Shares; and (iii) made its own assessment and has satisfied itself concerning the relevant tax, legal and other economic considerations relevant to an investment in the Offer Shares.

(vi) If it is acquiring any Offer Shares as a fiduciary or agent for one or more accounts, it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each such account.

(vii) Any offer, sale, pledge or other transfer of Offer Shares made other than in compliance with the above stated restrictions shall not be recognized by the Company.

(viii) The purchaser acknowledges that the Company, the Selling Shareholder, the Joint Global Coordinators, their respective affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements.

Investors outside the United States

Each purchaser of the Offer Shares outside of the United States will be deemed to have represented and agreed as follows:

(i) The purchaser (and the person, if any, for whose account or benefit the purchaser is acquiring the Offer Shares) was located outside the United States at the time the buy order for the Offer Shares was originated and continues to be located outside the United States and has not purchased the Offer Shares for the benefit of any person in the United States or entered into any arrangement for the transfer of the Offer Shares to any person in the United States.

(ii) The purchaser understands and acknowledges that the Offer Shares have not been and will not be registered under the Securities Act and are being offered outside the United States in reliance on Regulation S.

(iii) It is not an affiliate of the Company or a person acting on behalf of such an affiliate.

(iv) It is aware that the Offer Shares are "restricted securities" within the meaning of the Securities Act and may not be deposited into any unrestricted depositary facility, unless at the time of such deposit such Offer Shares are no longer restricted securities under the Securities Act.

(v) If it is acquiring any Offer Shares as a fiduciary or agent for one or more accounts, it has sole investment discretion with respect to each such account and it has full power to make such foregoing representations and agreements on behalf of each such account.

(vi) The purchaser acknowledges that the Company, the Selling Shareholder, the institutional managers, their respective affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements.

PLAN OF DISTRIBUTION

We, the Selling Shareholder and the institutional managers named in the following table have entered into an institutional underwriting agreement (the "**Institutional Underwriting Agreement**"), pursuant to which the institutional managers have agreed, severally and not jointly, subject to certain conditions, to procure subscribers or investors for, or, failing which, to purchase, the number of Offer Shares set out in the Institutional Underwriting Agreement at the offering price in connection with the Offering. Such allocations take into consideration the Stock Split, see "*Principal and Selling Shareholder—Stock Split*".

Institutional Managers	Number of Offer Shares	Percentage
Deutsche Bank AG, London Branch	14,333,334	26.67%
Mediobanca-Banca di Credito Finanziario S.p.A.	14,333,333	26.67%
Morgan Stanley & Co. International plc	14,333,333	26.67%
BNP Paribas	2,120,000	4%
Jefferies International Limited	4,770,000	9%
UniCredit Corporate & Investment Banking	3,710,000	7%
Banca Akros S.p.A.	0	0%
Total	**53,000,000**	**100%**

Deutsche Bank AG, London Branch, Mediobanca-Banca di Credito Finanziario S.p.A. and Morgan Stanley & Co. International plc are the Joint Global Coordinators and Joint Bookrunners of the Offering, BNP Paribas, Jefferies International Limited and UniCredit Corporate & Investment Banking are the Joint Bookrunners of the Offering and Banca Akros S.p.A. is the Co-lead Manager of the Offering.

The Institutional Underwriting Agreement provides that the obligations of the institutional managers are subject to certain conditions precedent, and the Institutional Underwriting Agreement may be terminated in certain circumstances prior to payment for the sale of the Offer Shares being made to the Selling Shareholder. We and the Selling Shareholder have given certain representations and warranties to the institutional managers and have agreed to indemnify the institutional managers against certain liabilities in connection with the offer and sale of the Offer Shares.

Over-allotment Option

The Selling Shareholder has granted to the Joint Global Coordinators an option to procure subscribers or investors for, or, failing which, to purchase, on behalf of the institutional managers up to 7,950,000 Offer Shares equal to 15% of the Offer Shares at the offering price, less applicable commissions, to cover any overallotments. This option may be exercised, in whole or in part, from the date of the Institutional Underwriting Agreement until 30 days after the Trading Date. In connection with this Over-allotment Option, the Selling Shareholder has also granted the Stabilizing Manager an option to borrow up to 7,950,000 Offer Shares. This option may be exercised, in whole or in part, from the date of the Institutional Underwriting Agreement until 30 days after the Trading Date. The number of additional Offer Shares available for over-allotments shall not exceed in any case the number of Offer Shares effectively lent under the borrowing available to the Stabilizing Manager.

Lock-Up Agreements

The Selling Shareholder has agreed, except in certain limited circumstances to abide by lock up commitments which prevent it from (i) issuing, offering, pledging, selling, contracting to sell, selling or granting any option, right, warrant or contract to purchase, exercising any option to sell, purchase any option or contract to sell, or lending or otherwise transferring or disposing of any ordinary shares, or any securities convertible into or exercisable or exchangeable for ordinary shares, (ii) entering into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any ordinary shares or other shares of the Issuer, whether any such transaction described in (i) or (ii) above is to be settled by delivery of ordinary shares or other securities, in cash or otherwise, and (iii) publicly announce such an intention to effect any such transaction for a period of 360 days from the Trading Date without the prior written consent of the Joint Global Coordinators (which will not be unreasonably withheld).

In addition, except in certain limited circumstances, we have also agreed to abide by lock-up commitments which prevent us from (i) issuing, offering, pledging, selling, contracting to sell, selling or granting any option, right, warrant or contract to purchase, exercising any option to sell, purchase any option or contract to sell, or lending or otherwise transferring or disposing of any ordinary shares, or any securities convertible into or exercisable or exchangeable for ordinary shares, or filing any registration statement under the Securities Act or any similar document with any other securities regulator, stock exchange or listing authority with respect to any of the foregoing, (ii) entering into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any ordinary shares or other shares of the Issuer, whether any such transaction described in (i) or (ii) above is to be settled by delivery of ordinary shares or other securities, in cash or otherwise, and (iii) publicly announce such an intention to effect any such transaction, for a period of 180 days from the Trading Date without the prior written consent of the Joint Global Coordinators (which will not be unreasonably withheld). Additionally, certain managers of the Company have agreed to a lock-up undertaking for a period of 360 days from the Trading Date and certain minority shareholders have agreed, except in certain limited circumstances, to a lock-up undertaking for a period of 180 days from the Trading Date.

In the event that the Selling Shareholder is granted a waiver with respect to its relevant lock-up commitments, such waiver shall be considered automatically granted also to the managers of the Company.

Existing Relationships with the Joint Global Coordinators and Conflicts of Interest

Deutsche Bank AG, London Branch acts as a Joint Global Coordinator of the Offering. Deutsche Bank AG, London Branch, together with other intermediaries, underwrites the placement of the Offer Shares covered by the Offering and earns fees for its role in the Offering.

Mediobanca-Banca di Credito Finanziario S.p.A. acts as Joint Global Coordinator of the Offering, Lead Manager in connection with the Offering and Sponsor for the listing on the MTA. Mediobanca-Banca di Credito Finanziario S.p.A., together with other intermediaries, underwrites the placement of the Offer Shares covered by the Offering and earns fees for its role in the Offering.

Morgan Stanley & Co. International plc acts as a Joint Global Coordinator of the Offering. Morgan Stanley & Co. International plc, together with other intermediaries, underwrites the placement of the Offer Shares covered by the Offering and earns fees for its role in the Offering.

In the ordinary course of the Joint Global Coordinators' and certain of their affiliates' respective businesses, the Joint Global Coordinators and their affiliates may, from time to time, engage in sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services (including the entry into credit agreements and the provision of credit lines and investment banking services) with the Company, the Selling Shareholder or their affiliates for which they have been or may be paid customary fees.

In connection with the Offering, the Joint Global Coordinators and/or their respective affiliates may act as investors for their own account and may take up Offer Shares and, in that capacity, may retain, purchase or sell for their own account such Offer Shares and may offer or sell such securities or other related investments otherwise than in connection with the Offering.

Accordingly, references herein to the Offer Shares being offered or placed should be read as including any offering or placement of Offer Shares to the Joint Global Coordinators and/or their respective affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Joint Global Coordinators receive a commission not greater than 3% of the value of the Offer Shares sold as part of the Offering (including those sold as part of the Over-allotment Option).

Stabilization

In connection with the Offering, Mediobanca-Banca di Credito Finanziario S.p.A. as stabilizing manager (or any person acting for the stabilizing manager) may, to the extent permitted by applicable law, over-allot Offer Shares or effect transactions with a view to supporting the market price of the shares on the MTA for a limited period at a level higher than that which might otherwise prevail in the open market. However, there is no assurance that the stabilizing manager (or any agent of the stabilizing manager) will undertake stabilization activities. Any such stabilizing activities, if commenced, may begin on or after the day on which trading in the shares begins on the MTA, may be discontinued at any time and must be brought to an end within 30 days after the commencement of conditional dealings in the Offer Shares. Any such stabilizing shall be in compliance with all applicable laws, regulations and rules.

Selling Restrictions

United States

The shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States of America for offer or sale as part of their distribution and may not be offered or sold within the United States, except in certain transactions exempt from the registration requirements of the Securities Act.

Shares may be sold: (a) in the United States of America only to QIBs in reliance on Rule 144A under the Securities Act or another exemption from registration thereunder and (b) outside the United States in offshore transactions in compliance with Regulation S under the Securities Act and in accordance with applicable law. Any offer or sale of shares in reliance on Rule 144A will be made by broker-dealers who are registered as such under the U.S. Securities Exchange Act of 1934, as amended. Terms used above have the meanings given to them by Regulation S and Rule 144A under the Securities Act.

In addition, until 40 days after the commencement of the offering of the shares, an offer or sale of shares within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act or pursuant to another exemption from registration under the Securities Act.

United Kingdom

In the United Kingdom, this Offering Circular is only addressed to and directed to Qualified Investors: (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"), and/or (ii) who are high net worth entities falling within Article 49(2)(a) to (d) of the Order, and other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "**Relevant Persons**"). The securities described herein are only available in the United Kingdom to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities in the United Kingdom will be engaged in only with, Relevant Persons. Any person in the United Kingdom who is not a Relevant Person should not act or rely on this Offering Circular or any of its contents.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), shares have not and will not be offered to the public in that Relevant Member State, other than in connection with the Offering once the Italian Prospectus has been approved by CONSOB in Italy and published in accordance with the Prospectus Directive as implemented in Italy, except that an offer to the public in that Relevant Member State of any shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(i) to any legal entity which is a qualified investor as defined under the Prospectus Directive;

(ii) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the institutional managers for any such offer; or

(iii) in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3(2) of the Prospectus Directive,

provided that no such offer of shares referred to in items (i) and (iii) above shall result in a requirement for the publication by the Company or any institutional manager of a prospectus pursuant to Article 3 of the Prospectus Directive or a supplementary prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this Offering Circular, the expression an "offer to the public" in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares to be offered so as to enable an investor to decide to purchase or subscribe for any shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

Each person in a Relevant Member State other than, in the case of paragraph (a), persons receiving offers to the public contemplated in the Offering, who receives any communication in respect of, or who acquires any shares which are the subject of the offering contemplated by this Offering Circular under the offers contemplated in this Offering Circular will be deemed to have represented, warranted and agreed to and with each institutional manager that:

(a) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

(b) in the case of any shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive: (i) the shares acquired by it in the offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than to "qualified investors" as defined in the Prospectus Directive, or in circumstances in which the prior consent of the Joint Global Coordinators has been given to the offer or resale, or (ii) where shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those shares to it is not treated under the Prospectus Directive as having been made to such persons.

Italy

This Offering Circular has not been submitted to CONSOB for clearance and will not be subject to formal review or clearance by CONSOB.

The Offer Shares may not be offered, sold or delivered, directly or indirectly in the Republic of Italy or to a resident of the Republic of Italy, unless such offer, sale or delivery of shares or distribution of copies of the Offering Circular or the Offering Circular or other documents relating to the Offering in the Republic of Italy is:

(a) pursuant to the Consolidated Financial Act, made only to "qualified investors" (*investitori qualificati*), as defined pursuant to Article 34-*ter*, first paragraph, letter b), of Issuers' Regulation implementing Article 100 of the Consolidated Financial Act; or

(b) in any other circumstance where an express exemption from compliance with the regulations on offers to the public applies, including, without limitation as provided under Article 100 of the Consolidated Financial Act and Article 34-*ter* of the Issuers' Regulation.

Any such offer, sale or delivery of the Offer Shares or distribution of copies of the Offering Circular or any other document relating to the Offering in the Republic of Italy must be in compliance with the selling restrictions under (a) and (b) above and must be:

(i) made by *soggetti abilitati* (including investment firms, banks or financial intermediaries, as defined by Article 1, first paragraph, letter r), of the Consolidated Financial Act), to the extent duly authorized to engage in the placement and/or underwriting and/or purchase of financial instruments in the Republic of Italy in accordance with the relevant provisions of the Consolidated Financial Act, CONSOB Regulation 16190 of October 29, 2007, as amended, Consolidated Banking Act and any other applicable laws and regulations; and

(ii) in compliance with any other applicable Italian securities, tax and exchange control laws and regulations and other applicable requirement or limitation which may be imposed by CONSOB, the Bank of Italy or any other Italian regulatory authority from time to time.

Any investor purchasing the Offer Shares is solely responsible for ensuring that any offer or resale of the shares it purchases occurs in compliance with applicable laws and regulations.

In accordance with Article 100—*bis* of the Consolidated Financial Act, the subsequent resale on the secondary market in the Republic of Italy of the shares (which were part of an offer made pursuant to an exemption from the obligation to publish a prospectus) constitutes a distinct and autonomous offer that must be made in compliance with the public offer and prospectus requirement rules provided under the Consolidated Financial Act and the Issuers' Regulation unless an exemption applies. Failure to comply with such rules may result in the subsequent resale of such shares being declared null and void and in the liability of the intermediary transferring the shares for any damage suffered by the investors.

Canada

The Offer Shares may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Offer Shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Circular (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* ("**NI 33-105**"), the institutional managers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with the Offering.

Switzerland

The shares will not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange Ltd. ("**SIX**") or on any other stock exchange or regulated trading facility in Switzerland. This Offering Circular has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland.

Neither this Offering Circular nor any other offering or marketing material relating to the Offering, the Company or the shares has been or will be filed with or approved by any Swiss regulatory authority. In particular, this Offering Circular will not be filed with, and the offer of shares will not be supervised by, the Swiss Financial Market Supervisory Authority (FINMA), and the offer of shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes ("**CISA**"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of shares.

This Offering Circular as well as any other material relating to the shares is personal and confidential and does not constitute an offer to any other person. This Offering Circular may only be used by those investors to whom it has been sent in connection with the Offering described herein and may neither directly nor indirectly be distributed or made available to other persons without express consent of the Company. It may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in (or from) Switzerland.

Dubai International Financial Center

This Offering Circular relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("**DFSA**"). This Offering Circular is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with exempt offers. The DFSA has not approved this Offering Circular nor taken steps to verify the information set forth herein and has no responsibility for the Offering Circular. The Offer Shares to which this Offering Circular relate may be illiquid and/or subject to restrictions on their resale. Prospective investors of the Offer Shares offered should conduct their own due diligence on the Offer Shares.

In relation to its use in the Dubai International Financial Center ("**DIFC**"), this Offering Circular is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the Offer Shares may not be offered or sold, directly or indirectly, to the public in the DIFC.

Australia

This Offering Circular does not constitute a prospectus or other disclosure document under the Corporations Act 2001 (Cth) ("**Australian Corporations Act**") and does not purport to include the information required of a disclosure document under the Australian Corporations Act. This Offering Circular has not been, and will not be, lodged with the Australian Securities and Investments Commission (whether as a disclosure document under the Australian Corporations Act or otherwise). Any offer in Australia of the Securities under this Offering Circular or otherwise may only be made to persons who are "sophisticated investors" (within the meaning of section 708(8) of the Australian Corporations Act), to "professional investors" (within the meaning of section 708(11) of the Australian Corporations Act) or otherwise pursuant to one or more exemptions under section 708 of the Australian Corporations Act so that it is lawful to offer the Securities in Australia without disclosure to investors under Part 6D.2 of the Australian Corporations Act.

Any offer for on-sale of the Securities that is received in Australia within 12 months after their issue by the Company is likely to need prospectus disclosure to investors under Part 6D.2 of the Australian Corporations Act, unless such offer for on-sale in Australia is conducted in reliance on a prospectus disclosure exemption under section 708 of the Australian Corporations Act or otherwise. Any persons acquiring Securities should observe such Australian on-sale restrictions.

The Company is not licensed in Australia to provide financial product advice in relation to the Securities. Any advice contained in this Offering Circular is general advice only. This Offering Circular has been prepared without taking account of any investor's objectives, financial situation or needs, and before making an investment decision on the basis of this document, investors should consider the appropriateness of the information in this document, having regard to their own objectives, financial situation and needs. No cooling off period applies to an acquisition of the Securities.

Jurisdictions other than Italy

No action has been or will be taken by us, the Selling Shareholder or the Joint Global Coordinators that would permit a public offering of the shares or the possession, circulation or distribution of this Offering Circular or any other material relating to us or the shares in any jurisdiction where action for that purpose is required. Accordingly, the shares may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the shares may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Persons into whose hands this Offering Circular comes are required by us, the Selling Shareholder, and the Joint Global Coordinators to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver shares or have in their possession or distribute such offering material, in all cases at their own expense.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for us by White & Case LLP as to matters of United States federal law and English law, Gattai, Minoli, Agostinelli & Partners as to matters of Italian law, and by PwC Tax and Legal Services as to matters of Italian tax law. Certain legal matters in connection with the Offering will be passed upon for the institutional managers by Clifford Chance LLP and Clifford Chance Studio Legale Associato as to matters of United States federal law, English law and Italian law.

INDEPENDENT AUDITORS

Our Consolidated Financial Statements as of, and for the years ended December 31, 2016, 2015 and 2014 included in this Offering Circular, have been audited by PricewaterhouseCoopers S.p.A., independent auditors, as stated in their report appearing herein.

INDEX TO FINANCIAL INFORMATION

INDEPENDENT AUDITORS' REPORT

To the shareholders of
Banca Farmafactoring S.p.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Banca Farmafactoring Group, which comprise the consolidated balance sheet as of 31 December 2016, the consolidated income statement, the statement of consolidated comprehensive income, the statement of changes in consolidated shareholders' equity, the consolidated statement of cash flows for the year then ended and the related notes, which include a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view, in order to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C .F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Banca Farmafactoring Group as of 31 December 2016 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

Milan, 20 February 2017

PricewaterhouseCoopers SpA

Signed by

Giovanni Ferraioli

(Partner)

The relevant paragraphs of the original report (which was issued in Italian) have been translated into the English language, solely for the convenience of international readers, for the purposes of inclusion in the offering documents to be prepared in relation to the listing of ordinary shares of Banca Farmafactoring S.p.A.

Banca Farmafactoring S.p.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in euros)		12/31/2016	12/31/2015
	Assets		
10.	Cash and cash balances	149,035	159,775
20.	Financial assets held for trading	244,420	0
30.	Financial assets designated at fair value	3,401,129	0
40.	Available-for-sale financial assets	385,279,885	429,437,687
50.	Held-to-maturity financial assets	1,629,319,849	822,858,767
60.	Due from banks	144,871,367	60,522,545
70.	Due from customers	2,499,094,435	1,962,004,347
80.	Hedging derivatives	529,027	0
100.	Equity investments	301,567	0
120.	Property, plant and equipment	12,988,330	12,665,596
130.	Intangible assets	25,811,363	2,746,916
	of which		
	—goodwill	*22,146,189*	*0*
140.	Tax assets	25,870,072	28,053,378
	a) current tax assets	*21,450,987*	*25,113,356*
	b) deferred tax assets	*4,419,084*	*2,940,022*
	Of which for purpose of Law 214/2011	*748,650*	*546,940*
160.	Other assets	7,135,948	3,105,924
	Total assets	4,734,996,427	3,321,554,935
	Liabilities and Equity		
10.	Due to banks	634,806,875	688,080,771
20.	Due to customers	2,996,142,256	1,726,682,877
30.	Debt securities issued	634,282,882	452,962,115
40.	Financial liabilities held for trading	7,248	0
60.	Hedging derivatives	176,037	0
80.	Tax liabilities	73,658,616	70,582,775
	a) current tax liabilities	*24,129,771*	*23,804,794*
	b) deferred tax liabilities	*49,528,845*	*46,777,981*
100.	Other liabilities	54,319,925	45,884,998
110.	Provision for employee severance indemnities	867,129	883,124
120.	Provisions for risks and charges	6,989,235	5,194,831
	a) pension fund and similar obligations	*6,342,956*	*4,829,872*
	b) other provisions	*646,279*	*364,959*
140.	Revaluation reserves	4,494,859	4,183,573
170.	Reserves	126,132,168	127,409,048
190.	Issued capital	130,982,698	130,900,000
220.	Profit for the year	72,136,499	68,790,823
	Total liabilities and equity	4,734,996,427	3,321,554,935

Banca Farmafactoring S.p.A.

CONSOLIDATED INCOME STATEMENT

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

Banca Farmafactoring S.p.A.

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

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

Banca Farmafactoring S.p.A.

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT DECEMBER 31, 2016

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

Banca Farmafactoring S.p.A.

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT DECEMBER 31, 2015

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

Banca Farmafactoring S.p.A.

CONSOLIDATED STATEMENT OF CASH FLOWS

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

Banca Farmafactoring S.p.A.

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(in euros)	Year ended 12/31/2016	Year ended 12/31/2015
C. FUNDING ACTIVITIES		
issue/purchase of treasury shares		
issue/purchase of equity instruments	(82,698)	
distribution of dividends and other purposes	(68,765,000)	(48,450,000)
Net liquidity generated/absorbed by funding activities	**(68,847,698)**	**(48,450,000)**
NET LIQUIDITY GENERATED/ABSORBED DURING THE YEAR	**(10,740)**	**156,562**

RECONCILIATION

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

Banca Farmafactoring S.p.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at and for the year ended December 31, 2016

The Notes are arranged in the following order:

Part A—Accounting Policies

Part B—Consolidated Balance Sheet

Part C—Consolidated Balance Sheet

Part D—Consolidated Comprehensive Income

Part E—Risks and related Risk Management Policies

Part F—Consolidated Equity

Part G—Business Combinations

Part H—Related Party Transactions

Part I—Share-based Payments

Part L—Segment Reporting

Banca Farmafactoring S.p.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at and for the year ended December 31, 2016

Part A—Accounting policies

A.1—GENERAL REMARKS

Section 1—Statement of compliance with the international accounting standards

The consolidated financial statements have been prepared in accordance with the international accounting principles (IAS/IFRS) issued by the IASB, approved by the European Commission as established in EC Regulation 1606 of July 19, 2002, which regulates the coming into force of IAS/IFRS, as well as the relative interpretations (IFRIC), approved by the European Commission and in effect at the end of the reporting period.

IFRS have been applied by complying with the "systematic framework" for the preparation and the presentation of the financial statements with particular reference to the fundamental principle of substance over legal form and the concept of relevance or significance of the information.

Section 2—General preparation principles

The Consolidated Financial Statements at December 31, 2016 were prepared in accordance with the instructions provided by the Bank of Italy with Circular No. 262 of December 22, 2005 "*Bank financial statements: presentation format and preparation rules*" and subsequent updates.

The consolidated financial statements include the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the financial statements and are accompanied by the directors' report on operations.

In accordance with the provisions of Article 5, Section 2, of Legislative Decree No. 38 of February 28, 2005, the Consolidated Financial Statements are denominated in euros, as the euro is the functional currency.

All amounts included in notes are in thousands of euros, unless otherwise stated; the figures for the prior year are presented for purposes of comparison.

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

Main measurement criteria

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

New accounting principles

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

- *Amendment to IAS 19, "Employee Benefits"*
  The amendment clarifies the application of IAS 19 for contributions to defined benefit plans by employees and third parties. These contributions are recognized by the entity as a reduction in the service cost, to the extent they are linked to the employee's service rendered in that period, rather than being attributed over the service life of the employee.
- *Amendment to IFRS 11, "Joint ventures"*
  The amendments establish that an entity must apply the principles defined in IFRS 3 to recognize the accounting effects of the acquisition of an interest in a joint operation that constitutes a business. The amendment applies to the acquisition of an interest on its formation or when acquiring an interest in existing joint operations. However, an investment held previous to the coming into effect of the

Part A—Accounting policies (Continued)

amendment is not revalued when the acquisition of an additional interest has the effect of maintaining control over the joint operation (meaning that the additional acquisition does not have the effect of achieving control over the joint operation).

- *Amendment to IAS 16, "Property, plant and equipment"* and *IAS 38,"Intangible assets", on depreciation and amortization*
  The amendment to these two standards specifies that it is not appropriate to determine the depreciation or amortization rate of an asset based on the revenues that it generates in a given period.
- *Amendments to IAS 27, "Equity Method in Separate Financial Statements"*
  This amendment enables entities to use, in their separate financial statements, the equity method to account for investments in subsidiaries, joint ventures and associates.
- *Annual improvements 2010-2012*
  The improvements contain amendments to the following standards.
  - *IFRS 2, "Share-based payment":* amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
  - *IFRS 3, "Business combinations":* clarifies the classification of contingent consideration and the accounting treatment of fair value changes related thereto. More specifically, it clarifies that contingent consideration classified as asset and liabilities are measured at fair value at each closing date subsequent to initial recognition and that the fair value changes are recognized in the income statement or in the statement of comprehensive income.
  - *IFRS 8, "Operating Segment":* requires entities to disclose information about their operating segments, products and services. A reconciliation is provided between segment reporting activities for disclosure purposes and the activities of the entity.
  - *IAS 16, "Property, plant and equipment":* in the case of the revaluation of property, plant and equipment (which will be measured at fair value and not at cost), the revaluation of the gross amount must be consistent with that of the net amount (meaning that the accumulated depreciation should be equal to the difference between the gross and net after the value adjustments recorded).
  - *IAS 24, "Related party Disclosures":* the amendment establishes the disclosure necessary when there is a third-party entity that provides key management personnel services to the reporting entity that prepares the financial statements.
  - *IAS 38, "Intangible assets":* in the case of the revaluation of an intangible asset (which will be measured at fair value and not at cost), the revaluation of the gross amount must be consistent with that of the net amount (meaning that the accumulated amortization should be equal to the difference between the gross and net after the value adjustments recorded).
- *Annual improvements 2012-2014*
  The improvements contain amendments to the following standards.
  - IFRS 7, "*Service contracts*": if an entity transfers a financial asset to another party and the conditions of IAS 39 for the derecognition of the asset can be met, the amendment to IFRS 7 requires that a disclosure be provided about any residual involvement that the entity may still have with regard to the transferred asset. More specifically, the amendment provides guidance as to the meaning of "residual involvement" and adds a specific guidance to help management determine whether or not the terms of a service agreement concerning the asset give rise to a residual involvement.
  - *IAS 19, "Employee Benefits":* this standard requires that the discount rate applied to determine the present value of obligations for post-unemployment benefits be determined based on the

Part A—Accounting policies (Continued)

market yields of high-quality corporate bonds and that in countries that lack a deep market for such securities the market yields of the securities of public entities should be used.

- *Amendment to IAS 1, "Presentation of financial statements" on the disclosure initiative* This amendment clarifies the guidance provided in IAS 1 regarding materiality, aggregation of items, presentation of subtotals, structure of the financial statements and disclosures about accounting policies.
  This amendment also modifies the additional disclosures required for this section concerning the other components of comprehensive income.
  Lastly, it introduces some new requirements regarding general disclosures, such as, for example, a systematic presentation of the accompanying notes and the presentation of accounting principles.
- *IFRS 9 "Financial instruments"* (in effect as of January 1, 2018)
  This standard replaces IAS 39 and provides a model for the measurement of financial instruments based on three categories: amortized cost, fair value and fair value with changes recognized in other comprehensive income (OCI). This standard also provides an impairment model that differs from the one currently provided in IAS 39 and is based mainly on the concept of projected impairment. The provisions governing hedge accounting were also amended.

Section 3—Scope and principles of consolidation

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

Subsidiaries

Subsidiaries are companies controlled by the Group. The Group controls a company when it is exposed to the variable returns generated by the company and has the ability to affect those returns through its power over the company. Generally, control is deemed to exist when the Company holds, directly or indirectly, more than half of the voting rights, taking also into account contingent exercisable or convertible voting rights.

Subsidiaries also include special purpose entities for which the Group is actually exposed to the majority of the risks and rewards deriving from their activities or those over which it exercises control. The existence of an equity investment in these special purpose entities is not relevant for this purpose.

All subsidiaries are consolidated line-by-line from the date when control is transferred to the Group. Conversely, they are excluded from the scope of consolidation when such control ceases.

The financial statements and accompanying notes of companies consolidated line-by-line are prepared in accordance with the IAS/IFRSs for inclusion in the consolidated financial statements.

The principles applied in line-by-line consolidation are the following:

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

Part A—Accounting policies (Continued)

- translation differences on the conversion of the financial statements of these subsidiaries, arising from the application of the year-end rate for the balance sheet and the average rate for the year for the income statement are recognized in the revaluation reserves in equity, in addition to the translation differences on the equities of the subsidiaries.

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

1. Investments in subsidiaries under exclusive control

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

Companies in points 8 and 9 above are limited partnerships.

Key:

(1) Relationship type:

1 = having the majority of voting rights at ordinary shareholders' meetings

2 = dominant t influence at ordinary shareholders' meetings

3 = agreements with other shareholders

4 = other forms of control

5 = centralized management as per Article 26, paragraph 1, of Legislative Decree No. 87/92

6 = centralized management as per Article 26, paragraph 2, of Legislative Decree No. 87/92

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

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

The accounting standard for business combinations is IFRS 3.

The transfer of the control of a business (or an integrated set of assets and activities, conducted and managed to provide a return, lower costs or other economic benefits directly to investors constitutes a business combination transaction.

Part A—Accounting policies (Continued)

In accordance with IFRS 3, each business combination requires the identification of the acquirer as the entity which acquired control over another business entity or group of assets.

The acquisition, and therefore the first-time consolidation of the acquired entity, is accounted for on the date in which the acquirer obtains effective control of the company or the assets acquired. When the acquisition occurs through a single exchange transaction, the exchange date generally coincides with the acquisition date. However, it is always necessary to verify the existence of any agreements between the parties which could involve a transfer of control before the exchange date.

The consideration transferred in a business combination is measured as the sum of the fair value, at the exchange date, of the assets sold, the liabilities incurred or assumed and the equity instruments issued by the acquirer in exchange for control.

The costs related to the acquisition are the expenses incurred by the acquirer to achieve the business combination. The costs related to the acquisition are recorded in the income statement in the period in which such costs were incurred and the services were received, except for the costs of any issue of equity shares or debt securities, which must be recognized in accordance with IAS 32 and IAS 39.

Business combinations are accounted for by applying the acquisition method. Under this method the identifiable assets acquired (including any intangible assets not previously recognized by the acquired company) and the identifiable liabilities assumed (including contingent liabilities) must be recognized at acquisition-date fair value.

The accounting for a business combination can be made for provisional amounts if the accounting is incomplete by the end of the reporting period in which the combination occurs but must be perfected within 12 months of the acquisition date.

On December 16, 2016, the merger of Mediona with and into Magellan was registered with the Lodz registry office, with the acquisition, by BFF, of 67,471 treasury shares held by Magellan for PLN 23 million, equal to €5.2 million, which increased the value of the investment by the same amount

Whether mergers are formed by the creation of a new legal subject or with and into another already existing company they are treated according to the criteria described above. Specifically:

- if the transaction results in the transfer of the control of the company, it is treated as a business combination in accordance with IFRS 3;
- if the transaction does not result in the transfer of control, it is accounted for as an acquisition.

Section 4—Subsequent events after December 31, 2016

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

Section 5—Other issues

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

In accordance with the IFRSs, the development of estimates by management is a prerequisite for the preparation of the Consolidated Financial Statements at December 31, 2016. This process involves the use of available information and the adoption of subjective judgments, also based on historical experience, in order to formulate reasonable assumptions for the recognition of operating events. These estimates and assumptions may vary from one year to the next and, consequently, the possibility cannot be excluded that, in subsequent years, the actual results reported in the financial statements may be significantly different, owing to changes in the subjective judgments utilized.

Part A—Accounting policies (Continued)

Estimates and assumptions are reviewed on a regular basis. Any changes resulting from such reviews are recognized in the period in which the review is carried out, provided the change refers only to that period. If the revisions refer both to current and future periods, the change is recognized both in the current and future periods accordingly.

The risk of uncertainty in estimates is essentially inherent in the measurement of:

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

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

Independent Audit

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

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

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

1—Financial assets held for trading

Recognition criteria

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

Classification criteria

Financial assets held for trading include financial instruments executed to hedge interest rate risk, for which hedge accounting was not applied.

These transactions hedge fluctuations in market interest rates as against the fixed rate implicit in non-recourse fees and commissions. The financial instruments recorded in this category are derivative contracts executed to hedge fluctuations in the exchange rates between the forward exchange rate and the spot exchange rate.

Part A—Accounting policies (Continued)

Financial derivatives are recognized as assets/liabilities held for trading in accordance with the provisions of IAS 39, even though at the operational level they are treated as instruments hedging the interest rate risk entailed by the purchase of non-recourse receivables.

Specifically with regard to Magellan, in 2016, foreign exchange swap agreements were executed to hedge the principal and interest on the bonds issued by Magellan (to be repaid in euros), from the fair value changes arising from fluctuations in the euro-zloty exchange rate.

Measurement criteria

Financial assets held for trading are adjusted to the corresponding fair value.

If the fair value of a financial asset becomes negative, it is recognized as a financial liability.

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

Derecognition criteria

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

2—Available-for-sale financial assets

Recognition criteria

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

Classification criteria

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity financial assets or financial assets measured at fair value. These assets are held for an indefinite period and can fulfill the need to access liquidity or respond to fluctuations in interest rates, exchange rates or prices.

Money market securities, other debt instruments (including the host contract of hybrid instruments after the bifurcation of the embedded derivative) and equity securities can be classified as available-for-sale financial investments. Shares held as minority investments that do not constitute controlling interests, joint control or associate interests can also be included in this category.

The main components of the instruments classified in the available-for-sale category include government securities and the investment in Nomisma S.p.A., since this company is not subject to significant influence.

Measurement criteria

Subsequently, these assets are measured at fair value, with the interest recognized at amortized cost in the income statement. Gains and losses arising from changes in fair value are recognized in equity under item 140 "Revaluation reserves"—except for impairment losses and exchange rate gains or losses on monetary items (debt securities), which are recognized under item 130 b) "Net losses on/recoveries of impairment of available-for-sale financial assets" and item 80. "Gains (losses) on financial assets and

Part A—Accounting policies (Continued)

liabilities held for trading," respectively, until the financial asset is sold, at which time the cumulative gains and losses are recognized in the income statement under item 100 b) "Gains (losses) on disposal and repurchase of available-for-sale financial assets."

Fair value changes recognized under item 140 "Revaluation reserves" are also reported in the statement of comprehensive income.

Equity instruments (shares) not traded in an active market, the fair value of which cannot be determined reliably due to the lack or unreliability of the information needed for fair value measurement, are measured at cost, which corresponds to their last reliably measured fair value.

For debt instruments, any circumstances indicating that the borrower or issuer is experiencing financial difficulties, such as to prejudice the collection of the principal or interest, constitute evidence of an impairment loss.

If there is objective evidence of an impairment of an available-for-sale financial asset, the cumulative loss that was recognized directly in equity under item 140 "Revaluation reserves" is transferred to the income statement under item 130 b). "Net losses on/recoveries of impairment of available-for-sale financial assets". The amount transferred to the income statement is equal to the difference between the asset's carrying amount (value at initial recognition net of any previous impairment losses already recognized in the income statement) and its current fair value.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively correlated with an event such as an improvement in the debtor's creditworthiness occurring in a period following the period when the impairment loss was recognized in the income statement, the impairment loss is reversed and the amount of the reversal is recognized in the same income statement item. However, this cannot be applied to equity securities.

The reinstatement cannot result in a carrying amount that exceeds what the amortized cost would have been had the impairment loss not been recognized.

Derecognition criteria

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

3—Held-to-maturity financial assets

Recognition criteria

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

Classification criteria

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

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

Measurement criteria

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

Part A—Accounting policies (Continued)

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

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

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

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

Derecognition criteria

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

- are so close to the financial asset's maturity or call date that changes in the market interest rate would not have a material impact on the financial asset's fair value;
- occur after substantially all of the financial asset's original principal has been collected through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the reporting entity's control, is nonrecurring and could not have been reasonably anticipated.

4—Receivables

Recognition criteria

Receivables include loans with customers and banks either made directly or acquired from third parties, with fixed or determinable payment dates.

Receivables are recognized initially at fair value, which usually corresponds to the consideration paid plus transaction costs and income which are directly attributable to the acquisition or provision of the financial asset, even though not yet settled.

Non-recourse receivables:

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

Part A—Accounting policies (Continued)

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

Classification criteria

The amounts due from banks mainly refer to current account transactions generated by liquidity from amounts collected in the closing days of the year, pending clearance, relating both to "receivables management" and "management of receivables purchased on a non-recourse basis".

Receivables due from customers are primarily comprised of receivables from debtors relating to factoring activities and late-payment interest, computed on receivables purchased on a non-recourse basis, determined in accordance with existing laws (Legislative Decree No. 231/2002 "Implementation of Directive No. 2000/35/EC on combating late payments in commercial transactions").

All purchases of non-recourse receivables refer to factoring transactions executed pursuant to Law No. 52/91.

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

Measurement criteria

After initial recognition, receivables are measured at amortized cost, equal to the original amount, less repayment of principal and impairment losses, and increased by any reinstatement of value and amortization, calculated using the effective interest method, of the difference between the amount disbursed and repayable when due, including ancillary costs/income recorded directly against the individual receivable.

For short-term receivables and revocable loans, amortized cost is not conventionally adopted, owing to the minor effects arising from the application of this method.

Receivables purchased on a non-recourse basis are measured at amortized cost, determined based on the present value of estimated future cash flows, both with reference to the principal amount and the late-payment interest that accrue from the due date of the receivable.

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

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

- the Group's business model and organizational structure envisage that the systematic recovery of late-payment interest on non-impaired receivables purchased on a non-recourse basis represents a structural element of the ordinary business activities for the management of such receivables;
- such late-payment interest, due to the effect on the composition of the Group's results, does not constitute an auxiliary element of non-recourse purchase transactions and has been considered for an complete analysis of the prospective profitability profiles.

The Group also has a time series of data concerning the collection percentages and times of collection of late-payment interest, acquired through analysis tools, enabling it to judge that the estimate of

Part A—Accounting policies (Continued)

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

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

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

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

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

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

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

The assessment of the "Probability of Default" (PD) was performed by assigning to the debtors (ASLs/AOs) a rating corresponding to the credit rating assigned by the major rating agencies to the particular Region to which the debtors belong.

To determine the "Loss Given Default" (LGD), the Group used the value recommended in the "Basel Accord Framework" for non-collateralized receivables owed by sovereign states, companies and banks, equal to 45%.

Magellan and its subsidiaries applied the provisions of IAS 39 even before the acquisition by Banca Farmafactoring, performing a collective assessment. However, the composition of Magellan's portfolio is different from Banca Farmafactoring's portfolio mainly because the most important exposures are with private debtors. Consequently, the assessment of receivables is made by applying a percentage to the receivable's purchase value that varies in relation to the type of counterparty to which the exposure refers.

As required by IAS 39, the Bank assesses the financial assets classified under receivables to identify any objective impairment of individual positions that require an analytical assessment.

Such "non-performing" receivables, which were assigned an impaired, doubtful or restructured status in accordance with existing prudential regulations, consistent with the IAS standards currently in effect, are measured at their estimated realizable value by recognizing any impairment losses determined on an individual basis, equal to the difference between the carrying amount of the receivable at the time of

Part A—Accounting policies (Continued)

measurement (amortized cost) and the present value of estimated future cash flows, calculated by applying the original effective interest rate. The estimated future cash flows take into account:

- estimated recovery time;
- estimated realizable value of any guarantees;
- costs that it is believed will be incurred to recover the receivable;
- any reinstatements.

Magellan assesses whether to record individual impairments by analyzing the profit and financial situation of the debtor and the actual possibility of recovering the receivable. A specific analysis is therefore carried out based on quantitative indicators (for example, profitability and liquidity indexes) and qualitative indicators (for example, market, client or supplier dependence) or ratings by recognized rating agencies.

Cash flows from receivables that are expected to be recovered over the short term (within 12 months—short-term receivables) are not discounted to present value.

A receivable that was written down is subsequently reinstated to its amortized cost when the reasons for the impairment no longer exist.

Derecognition criteria

Receivables are derecognized when they are considered uncollectible.

Receivables sold are derecognized only if the sale transferred all of the risks and benefit relating to such receivables.

On the other hand, if the risks and benefits are retained, the receivables sold will continue to be recorded on the asset side of the financial statements until, legally, title to the receivables is effectively transferred.

5—Financial assets designated at fair value

Recognition criteria

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

Classification criteria

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

Reclassification to other financial assets categories is not allowed.

Measurement criteria

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

Derecognition criteria

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

Part A—Accounting policies (Continued)

6—Hedging derivatives

Recognition criteria

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

Classification criteria

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

The possible types of hedges are the following:

- fair value hedges, which hedge the exposure to changes in the fair value of financial statement items;
- cash flow hedges, which hedge of the exposure to fluctuations in future cash flows attributable to specific financials statement items.

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

At December 31, 2016, the Bank has the following types of hedges:

- cash flow hedge: interest rate swap contract with a notional amount in Polish currency (zloty) executed to hedge a variable rate medium-term loan obtained in 2016 in Polish currency from changes in future cash flows arising from fluctuations in market interest rates (Wibor). Instead, the risk component of the loan attributable to changes in the euro-zloty exchange rate is not hedged.
- fair value hedge: foreign exchange swap contracts executed to hedge intragroup loans (between Banca Farmafactoring and Magellan), entered into in 2016 in Polish currency (zloty) and in Czech currency (koruna), from changes in fair value arising from fluctuations in the euro-zloty and euro-koruna exchange rates.

Pursuant to IAS 39, paragraph 80, these transactions in derivatives referring to intragroup loans are recognized in both the separate financial statements of the Bank and in the consolidated financial statements of the Group, due to the fact that all the changes in the value of the loans arising from euro-zloty and euro-koruna exchange rate fluctuations, recognized in the income statement of the separate financial statements of the Bank, also remain in the consolidated financial statements of the Group, even after the elimination on consolidation of intragroup transactions that are hedged.

Measurement criteria

Derivative hedging instruments are recognized and measured at their fair value.

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and the hedged item. Consequently, the Group verifies the hedging instrument's effectiveness, both at inception and during its life, in offsetting the exposure to changes in the hedged item's fair value or cash flows. A hedge is considered effective if, both at inception and during its life, the changes in the hedged item's fair value or cash flows are offset by the changes in the hedging derivative's fair value.

Consequently, the hedge's effectiveness is assessed by a comparison of the above changes, taking into account the objective pursued by the entity when the hedge was put into place. It is effective (within a range of 80-125%) when the estimated and effective changes in the fair value or cash flows of the hedging instrument offset almost entirely the changes in the hedged item, for the element of risk hedged. The

Part A—Accounting policies (Continued)

hedge's effectiveness is assessed each year at the closing of the annual financial statements or the interim financial reports using:

- prospective tests, which justify the application of hedge accounting, since they confirm the hedge's expected effectiveness;
- retrospective tests, which indicate the degree of effectiveness of the hedge achieved in the period to which they refer. In other words, they measure to what extent actual results diverged from those of a perfect hedge.

Gains and losses arising from fair value changes are accounted for differently depending on the type of hedge:

- fair value hedge: changes in the fair value of the hedged item attributable exclusively to the hedged risk are recognized in profit or loss, the same as the fair value change of the derivative; any difference, which represents the partial ineffectiveness of the hedge, consequently corresponds to the net gain or loss;
- cash flow hedge: changes in the fair value of the derivative are recognized in equity, for the effective portion of the hedge, and are recognized in profit or loss only when, with regard to the hedged item, there is a fluctuation in the cash flows that needs to be offset or the hedge is ineffective.

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

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

Derecognition criteria

Hedge accounting is discontinued in the following cases: a) the hedging relationship ceases or is no longer highly effective; b) the hedged item is sold or is repaid; c) early revocation of the designation; d) the hedging instrument expires or is sold, terminated or exercised.

If the hedge is not effective, the portion of the derivative contract no longer hedged (over hedging) is reclassified to trading instruments. If the interruption in the hedging relationship is due to the sale or termination of the hedging instrument, the hedged item ceases to be hedged and is again measured in the portfolio to which it belongs.

The hedging financial assets and liabilities are eliminated when there are no longer any contractual rights (e.g., expiration of the contract, early closing exercised according to the contractual clauses—unwinding) to receive cash flows from the hedged financial instruments, assets/liabilities and/or the derivative designated as a hedge or when the financial assets/liabilities are sold thus substantially transferring all the risks and benefits connected thereto.

Part A—Accounting policies (Continued)

8—Property, plant and equipment

Recognition criteria

Property, plant and equipment is recognized initially at cost, including all directly attributable costs to bring the asset into use (transaction costs, professional fees, direct transportation costs incurred to bring the asset to the assigned location, installation costs, dismantling costs).

Costs incurred subsequently are added to the asset's carrying amount or recognized as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be reliably measured. Other expenses incurred subsequently (e.g., ordinary maintenance costs) are recognized in the year incurred in the income statement under item 180 b) "Other administrative expenses," if they refer to assets used in the Group's business activities.

This item also includes assets used as the lessor in finance lease agreements, that is, those contracted as the lessor in operating lease agreements.

Classification criteria

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

Measurement criteria

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

With regard to the Group, such assets are depreciated on a straight-line basis over their estimated useful lives, estimated as follows:

- buildings: maximum 34 years;
- furniture: maximum 9 years;
- plant: maximum 14 years;
- office machines: maximum 3 years;
- other: maximum 11 years.

Land and buildings are treated separately for accounting purposes, even if purchased together. Land is not depreciated since, as a rule, it has an indefinite useful life.

The estimated useful life of property, plant and equipment is reviewed at the end of each reporting period, taking into account the conditions of use of the assets, maintenance conditions, expected obsolescence etc. and, if expectations differ from previous estimates, the depreciation expense for the current and subsequent years is adjusted.

At the date of IFRS first-time adoption (January 1, 2005), the Group-owned buildings used by the Group in its business activities (Milan and Rome) were measured at fair value, which became the new carrying amount of the assets as of that date.

If there is objective evidence that an individual asset has been impaired, the asset's carrying amount is compared with its recoverable amount, equal to the higher of its fair value, less costs to sell, and its value in use, i.e., the present value of future cash flows expected to originate from the asset. Any adjustments to the value of the asset are recognized in the income statement under item 200 "Impairment/write-backs on property, plant and equipment".

Part A—Accounting policies (Continued)

If the value of a previously impaired asset is reinstated, the new carrying amount cannot exceed the net carrying amount that would have been attributed to the asset if no impairment loss had been recognized in prior years.

Derecognition criteria

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

9—Intangible assets

Recognition criteria

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

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

Classification criteria

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

Intangible assets consist mainly of software and goodwill.

Measurement criteria

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

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

If there is objective evidence that an individual asset has been impaired, the asset's carrying amount is compared with its recoverable amount, equal to the higher of its fair value, less costs to sell, and its value in use, i.e., the present value of future cash flows expected to originate from the asset. Any adjustments to the value of the asset are recognized in the income statement under item 210 "Impairment/write-backs on intangible assets."

If the value of a previously impaired asset is reinstated, the new carrying amount cannot exceed the net carrying amount that would have been attributed to the asset if no impairment loss been recognized in prior years.

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

Assets with an indefinite life such as goodwill are not amortized but are tested for impairment annually or more frequently whenever there are indications that it might be impaired.

Part A—Accounting policies (Continued)

When there is an impairment, the carrying amount is reduced to its recoverable amount which is the higher of the fair value of the cash-generating unit, less costs to sell and its value in use, which is the fair value of estimated future cash flows of a cash-generating unit discounted to present value. The recognition of any reversal of an impairment loss is not allowed.

Derecognition criteria

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

11—Current and deferred taxes

Recognition and measurement criteria

Income taxes are computed in accordance with enacted tax legislation.

The tax charge consists of the total amount of current and deferred income taxes included in arriving at the result for the period.

Current income taxes correspond to the amount of income taxes due on the taxable income for the year.

Deferred tax liabilities correspond to the amount of income taxes due in future years on taxable temporary differences. Deferred tax assets correspond to the amount of income taxes recoverable in future years and refer to deductible temporary differences.

The tax amount of an asset or a liability is the value attributed to that asset or liability according to enacted tax legislation.

A deferred tax liability is recognized on all taxable temporary differences in accordance with IAS 12.

A deferred tax asset is recognized on all deductible temporary differences, in accordance with IAS 12, only to the extent that it is probable that there will be future taxable income against which the deductible temporary difference can be offset.

Deferred tax assets and liabilities are calculated based on enacted tax rates in the year in which the asset will be recovered or the liability will be extinguished.

Current and deferred taxes are recognized in the income statement.

12—Provisions for risks and charges

Recognition and measurement criteria

Provisions for risks and charges cover costs and expenses of a determinate nature, the existence of which is certain or probable, which, at the end of the reporting period are uncertain as to amount or date when they will arise.

Accruals to the provisions for risks and charges are recognized only when:

- there is a present obligation as a result of a past event;
- upon its manifestation, the obligation is onerous;
- the amount of the obligation can be estimated reliably.

As required by IAS 19, the provisions for risks and charges include the measurement of post-employment benefit obligations.

Part A—Accounting policies (Continued)

The measurement of such obligations in the balance sheet is made, based on actuarial calculations when necessary, by determining the charge at the measurement date based on demographic and financial assumptions.

Derecognition criteria

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

13—Payables and debt securities issued

Recognition criteria

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

Classification criteria

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

Measurement criteria

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

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

Derecognition criteria

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

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

18—Other information

Employee severance indemnities

Recognition and measurement criteria

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

- by projecting the vested employee severance benefits, using demographic assumptions to estimate the time of termination of the employment relationship;
- by discounting to present value, at the measurement date, the amount of the vested benefits at December 31, 2006, based on financial assumptions.

Part A—Accounting policies (Continued)

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

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

Share-based payment agreements with BFF employees

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

Lastly, it should be noted that on December 5, 2016 the BFF Extraordinary Shareholders' Meeting approved the stock option plan for employees and members of the corporate boards, in the event of the Bank's listing, which has already been submitted for examination by the Bank of Italy pursuant to paragraph 1.2, Section III, Chapter 2 of the Bank of Italy Circular No. 285.

The option rights relating to the above stock option plan had not yet been awarded as of the date of the approval of the financial statements.

Revenue recognition criterion

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

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

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

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

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

Part A—Accounting policies (Continued)

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

- Interest income on securities classified in the available-for-sale and held-to-maturity portfolios and interest expense on securities issued by the Group, are recognized at amortized cost, i.e., by applying to the face value of the securities the effective interest rate of return (IRR), determined as the difference between the coupon rate of interest and the purchase price of the same security and taking into account any issue discount. The interest thus computed is recognized in the income statement pro-rated over the duration of the financial asset or liability.
- Fees and commissions for receivables managed on behalf of assignors are recognized in two successive steps in relation to the timing and nature of the service rendered:
  - when the receivables are entrusted for management (fees and commissions on acceptance and handling expenses);
  - when the receivables are collected (collection fees and commissions).

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

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

A.4—FAIR VALUE DISCLOSURE

Qualitative information

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

Financial assets/liabilities held for trading, available-for-sale (investment in the FITD Voluntary Scheme) and hedging derivatives, recognized at December 31, 2016, are classified as Level 2, as the measurements were made using inputs other than the quoted prices used in Level 1 and observable directly or indirectly for the assets and liabilities.

The amount classified as Level 3 represents the value of the certificates purchased by Magellan in an investment fund which invests in the receivables of Polish public hospitals and, without observable evaluations, the value is approximate to the cost.

A.4.2 Valuation processes and sensitivities

These financial instruments are used to hedge fluctuations in market rates and exchange rates connected with the financial assets and liabilities recorded in the financial statements.

At December 31, 2016, the amount recognized corresponds to the fair value of the instrument. The fair value change in such financial assets/liabilities compared to December 31, 2015 requires the recognition in the income statement of a net gain/loss (+/−) on financial assets and liabilities held for trading.

A.4.3 Fair value hierarchy

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

Part A—Accounting policies (Continued)

Quantitative information

All amounts are states in thousands of euros.

A.4.5 Fair value hierarchy

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

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

A.4.5.2 Annual changes in assets measured at fair value (Level 3)

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

Part A—Accounting policies (Continued)

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

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

Key:

CA = Carrying Amount

L1= Level 1: quoted prices (without adjustments) recognized in active markets according to the definition of IFRS 13.

L2= Level 2: inputs other than quoted market prices included within Level 1 that are observable directly (prices) or indirectly (derived from the prices) in the market.

L3= Level 3: inputs that are not based on observable market data.

A.5 INFORMATION ON DAY ONE PROFIT/LOSS

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

Part B—Consolidated Balance Sheet

All amounts are in thousands of euros.

ASSETS

Section 1—Cash and cash balances—Item 10

€149 thousand

Part B—Consolidated Balance Sheet (Continued)

1.1 Cash and cash balances: breakdown

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

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

Section 2—Financial assets held for trading—Item 20

€244 thousand

2.1 Financial assets held for trading: breakdown by type

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

Part B—Consolidated Balance Sheet (Continued)

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

(in € thousands) Items/Amounts	Total 12/31/2016	Total 12/31/2015
A. BALANCE SHEET ASSETS		
1. Debt securities		
a) Governments and central banks		
b) Other public entities		
c) Banks		
d) Other issuers		
2. Equity securities		
a) Banks		
b) Other public entities		
—Insurance companies		
—Financial companies		
—Non-financial companies		
—Other		
3. Units in investment funds		
4. Loans		
a) Governments and central banks		
b) Other public entities		
c) Banks		
d) Other subjects		
Total A	**0**	**0**
B. DERIVATIVE INSTRUMENTS		
a) Banks	244	0
b) Customers		
Total B	**244**	**0**
Total (A+B)	**244**	**0**

The financial instruments recorded in this category total €244 thousand. They refer to derivative contracts executed for the purpose of hedging the change in exchange rates through the forward sale of foreign currency at a spot rate. These financial derivative contracts are recognized as assets or liabilities held for trading pursuant to the provisions of IAS 39, even though at the operational level they are considered risk hedging instruments.

Specifically with regard to Magellan, foreign exchange swap agreements were executed to hedge the principal and interest on the bonds issued by Magellan (to be repaid in euros) from the fair value changes arising from fluctuations in the euro-zloty exchange rate.

Section 3—Financial assets designated at fair value—Item 30

€3,401 thousand

Part B—Consolidated Balance Sheet (Continued)

3.1 Financial assets designated at fair value: breakdown by type

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

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

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

(in € thousands)	12/31/2016	12/31/2015
Items/Amounts		
1. Debt securities		
a) Governments and Central Banks		
b) Other public entities		
c) Banks		
d) Other issuers		
2. Equity securities		
a) Banks		
b) Other issuers:		
—insurance companies		
—financial companies		
—non-financial companies		
—other		
3. Units in investment funds	**3,401**	
4. Loans		
a) Governments and Central Banks		
b) Other public entities		
c) Banks		
d) Other subjects		
Total	**3,401**	

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

€385,280 thousand

The balance mainly represents government securities purchased by Banca Farmafactoring to hedge liquidity risk and to optimize the cost of money, for a total face value of €375 million.

These securities earn interest at variable rates (CCT) and have residual maturity dates up to five years.

Part B—Consolidated Balance Sheet (Continued)

The securities are classified in the AFS portfolio and therefore measured at amortized cost. The interest earned is recorded in the income statement according to the effective rate of return.

At the end of the year the value of the securities is compared to their fair value and the fair value adjustment is recognized in equity under revaluation reserves.

At December 31, 2016, the fair value reserves on available-for-sale securities amount to about €471 thousand net of the tax effect.

During the year AFS securities were sold for a nominal amount of €554 million realizing a gain of €706 thousand, before the tax effect, recorded in the income statement in 100 b) "Gains (losses) on disposals and repurchases of available-for-sale financial assets".

In 2015, Banca Farmafactoring became a member of the Voluntary Scheme established by the FITD to implement interventions of support for the member banks that are in conditions of or at the risk of becoming insolvent.

In May 2016, Cassa di Risparmio di Cesena asked for the intervention of the Voluntary Scheme to increase share capital so that a solution to the bank's difficulties could be reached.

BFF's share was paid in September 2016 and amounted to €235 thousand. The relative fair value at December 31, 2016, communicated by FITD on January 20, 2017 was €177 thousand. The difference of €57 thousand was recorded in the income statement in item 130 b "Net losses/recoveries on impairment of available-for-sale financial assets".

In keeping with the instructions of the Bank of Italy in "Voluntary Scheme established by FITD. Questions" the amount was recorded in this item under equity securities measured at fair value.

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

The main information about the investment is as follows:

Description	Carrying amount (€/cent)	No. of shares purchased	Nominal value per share (€/cents)	Percentage of investment holding
Nomisma S.p.A.	17,335.18	72.667	0.239	0.25%

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

(in euros, at 12/31/2015)	
Equity	7,177,384
Profit (loss) for the year	213,882

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

Part B—Consolidated Balance Sheet (Continued)

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

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

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

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

Section 5—Held-to-maturity financial assets—Item 50

€1,629,320 thousand

The amount consists entirely of purchases of government securities, classified in the HTM portfolio, to hedge against liquidity risk and to optimize the cost of money, for a total face amount of €1,596.5 million.

These securities are at a fixed rate (BOT, BTP and CTZ) with maturity dates related to the sources of committed and unsecured funding. Such securities are therefore classified in the HTM portfolio and measured at amortized cost. The interest earned is recorded in the income statement according to the effective rate of return.

Part B—Consolidated Balance Sheet (Continued)

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

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

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

	Total 12/31/2016				Total 12/31/2015			
		FV				FV		
(in € thousands)	CA	Level 1	Level 2	Level 3	CA	Level 1	Level 2	Level 3
1. Debt securities								
—structured								
—other	1,629,320	1,632,899			822,859	826,912		
2.Loans								

Key

FV = fair value

CA = carrying amount

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

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

Section 6—Due from banks—Item 60

€144,871 thousand

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

Part B—Consolidated Balance Sheet (Continued)

6.1 Due from banks: breakdown by type

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

Key:

FV = fair value

CA = carrying amount

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

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

There are no impaired assets in this item.

Section 7—Due from customers—Item 70

€2,499,094 thousand

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

Non-recourse receivables purchased are measured at amortized cost based on the present value of estimated future cash flows, including both the principal and late-payment interest that accrue from the receivable's due date. In order to compute amortized cost, including late-payment interest recognized on the accrual basis, the BFF updates the time series of data regarding the percentages and collection times of late-payment interest on an annual basis, when the financial statements are prepared. The outcome of this updating process has confirmed, for 2016, on the basis of the times series analysis, the recoverability rate of 40% for late-payment interest and 1800 days for collection times.

Part B—Consolidated Balance Sheet (Continued)

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

Magellan, the Group acquired in 2016, only recognizes late-interest interest on past due receivables when there is a reasonable certainty that the interest will be collected, on the basis of agreements reached with the counterparty debtors or when decided by a court of law.

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

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

7.1 Due from customers: breakdown by type

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

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

  Most of the non-recourse receivables purchased were already past due at the time of purchase and the principal portion of the receivables is deemed collectible. The right to the late-payment interest, accrued or accruing, is acquired at the same time the receivables are purchased.

  These receivables include receivables sold, totaling €137,380 thousand, but not derecognized as the sales transaction did not meet the derecognition requirements for the transfer of the risks and rewards associated with such receivables. The amount refers to one transaction for the securitization of healthcare receivables

  Receivables purchased below face value total €52,667 thousand.

- "Impaired assets" total €52,622 thousand. They include:

  - Non-performing receivables: consist of exposures with parties that are in a state of insolvency or substantially similar situations, irrespective of any loss projections developed by the company.

    Non-performing receivables thus include all receivables the collection of which is doubtful, net of writedowns for estimated impairment losses on receivables.

    At December 31, 2016, the total of non-performing receivables, net of write-downs due to estimated impairment losses, is €7.2 million, including €492 thousand referring to local government entities that were already distressed when the receivables were purchased and another €0.9 million owed by Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition with creditors.

    Other non-performing positions totaled about €8.6 million, including positions amounting to about €1.7 million that were completely written off against the provision for impairment and

Part B—Consolidated Balance Sheet (Continued)

consequently have a zero balance. BFF's remaining positions, totaling about €6.9 million, are written down based only on the time value, as they consist of positions secured by sureties and exposures with local government entities in distress (including €492 thousand already purchased as distressed), for which no provisions were recognized, as the distressed condition is expected to be remedied resulting in the collection of 100% of the claim.

The portion of late-payment interest relating to non-performing positions, recognized when the estimate criteria were changed, in 2014, amounts to €13.6 million and was completely written off. This refers mainly to the position with Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition agreement with creditors.

- Past due receivables mainly include €45,429 thousand of receivables due from territorial entities which are overdue more than 90 days at the date of December 31, 2016.

  Specifically, exposures with central administrations and central banks, public sector entities and territorial entities are deemed to be past due when the debtor has not made any payment for any of the debt positions owed to the financial intermediary for more than 90 days.

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

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

- performing finance leases of €6,816 thousand;
- performing factoring transaction with and without recourse of €117,603 thousand;
- performing other loans of €311,735 thousand;
- debt securities of €1,376 thousand issued by the Polish Public Administration;
- impaired assets total €9,224 thousand and include:
  - Non-performing exposures: the total, net of writedowns for estimated impairment losses on receivables of €1,950 thousand, amounts to €4,872 thousand.
  - Probable defaults (unlikely to pay concept): the exposures in the unlikely to pay category reflect the judgment made by the intermediary about the unlikeliness, absent such actions as the enforcement of guarantees, that the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts or installments. At December 31, 2016, the net exposures classified as unlikely to pay are equal to €3,614 thousand.

Part B—Consolidated Balance Sheet (Continued)

- Past due exposures: net past due exposures total €739 thousand at December 31, 2016.

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

Fair value

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

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

Part B—Consolidated Balance Sheet (Continued)

7.2 Due from customers: breakdown by debtor/issuer

(in € thousands)	12/31/2016			12/31/2015		
		Impaired			Impaired	
	Performing	Purchased	Other	Performing	Purchased	Other
Types of transactions/Amounts						
1. Debt securities:						
a) Governments						
b) Other public entities						
c) Other issuers						
—non-financial companies						
—financial companies						
—insurance companies						
—other						
2. Loans to:						
a) Governments	409,493		4,662	281,571		31
b) Other public entities	1,782,774	492	43,152	1,584,138	743	10,029
c) Other entities						
—non-financial companies	*94,195*		*7,183*	*6,506*		*33,707*
—financial companies	*53,045*			*28,932*		
—insurance companies	*0*					
—other	*97,740*		*6,358*	*15,116,00*		*1,231*
Total	**2,437,248**	**492**	**61,355**	**1,916,263**	**743**	**44,998**

Section 8—Hedging derivatives—Item 80

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

€529 thousand

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

Part B—Consolidated Balance Sheet (Continued)

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

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

The positive fair value at December 31, 2016 refers to the following types of hedges:

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

Section 10—Equity investments—Item 100

€302 thousand

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

10.1 Equity investments: information on investment relationships

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

Part B—Consolidated Balance Sheet (Continued)

10.4 Minor equity investments: accounting information

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

Section 12—Property, plant and equipment—Item 120

€12,988 thousand

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

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

Part B—Consolidated Balance Sheet (Continued)

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

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

At the date of IFRS first-time adoption (January 1, 2005), buildings owned by BFF and used in its business activities (Milan and Rome) were measured at fair value, which became the new carrying amount of the assets as of that date.

The measurement at first-time adoption resulted in a revaluation of the buildings for about €4 million, from about €5 million to about €9 million.

In the financial statements, the land and building owned in Milan (at Via Domenichino 5) were valued separately based on an appraisal conducted by the same company that determined their value.

The land on which the Rome building sits was not separated because BFF is not the owner of the entire building.

Part B—Consolidated Balance Sheet (Continued)

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

Section 13—Intangible assets—Item 130

€25,811 thousand

13.1 Intangible assets: breakdown by type of asset

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

Goodwill was recognized as a result of the acquisition of the Magellan Group by the BFF Group.

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

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

Part B—Consolidated Balance Sheet (Continued)

13.2 Intangible assets: year-over-year change

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

Key:

DEF = finite

INDEF = indefinite

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

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

Part B—Consolidated Balance Sheet (Continued)

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

Current tax assets amount to €21,451 thousand and mainly include advance payments for IRES and IRAP taxes made by BFF.

Current tax liabilities amount to €24,129 and include the accrual for income taxes for the year of the companies in the Group.

14.1 Deferred tax assets: breakdown

€4,419 thousand

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

14.2 Deferred tax liabilities: breakdown

€49,529 thousand

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

14.3 Change in deferred tax assets (through the income statement)

€4,073 thousand

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

Part B—Consolidated Balance Sheet (Continued)

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

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

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

€49,126 thousand

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

Part B—Consolidated Balance Sheet (Continued)

14.5 Change in deferred tax assets (through equity)

€346 thousand

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

14.6 Change in deferred tax liabilities (through equity)

€403 thousand

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

Part B—Consolidated Balance Sheet (Continued)

Section 16—Other assets—Item 160

16.1 Other assets: breakdown

€7,135 thousand

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

Other receivables refer primarily to non-commercial receivables from sundry debtors and pending items.

Accrued income and prepaid expenses refer to the difference in timing of costs relating to administrative expenses.

Inventories, as defined by IAS 2, refer to the purchase by the Magellan Group of medical vehicles and equipment that is intended, over a short time, to be sold or leased.

LIABILITIES AND EQUITY

Section 1—Due to banks—Item 10

€634,807 thousand

1.1 Due to banks: breakdown by type

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

"Due to banks" refers primarily to revocable and term financing facilities provided by the banking system at market rates.

It also includes the loan for the acquisition of Magellan S.A. secured from the Unicredit Group, for a total of about PLN 355 million, equal to 80% of the value of the public tender offer, for an equivalent amount of €80.5 million at December 31, 2016.

Part B—Consolidated Balance Sheet (Continued)

Section 2—Due to customers—Item 20

€2,996,142 thousand

2.1 Due to customers: breakdown by type

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

"Due to customers" includes €822.4 million for the online deposit accounts offered in Italy and Spain in demand deposits and current accounts.

Specifically, in 2016, deposit-taking was begun in Germany, under the freedom to provide services provision, by the Spanish branch of Banca Farmafactoring and is reserved exclusively for retail customers.

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

"Other loans" refer to amounts due to financial institutions as follows:

- a facility amounting to €118.5 million in existing collaboration from International Factor Italia S.p.A.—IFITALIA;
- a facility amounting to €113.3 million in existing collaboration from Unicredit Factoring S.p.A.

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

Part B—Consolidated Balance Sheet (Continued)

Section 3—Debt securities issued—Item 30

€634,283 thousand

3.1 Debt securities issued: breakdown by type

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

On June 21, 2016, BFF successfully completed the placement of senior unsecured bonds, which join the previous bonds of €300 million issued in 2014 with a maturity date of June 12, 2017, having similar characteristics.

The bonds were issued through a private placement reserved for institutional investors for a total face value of €150 million. The 5-year bonds, which have a maturity date of June 21, 2021, are unsecured and unrated.

The bonds are measured at amortized cost using the effective interest method.

In August 2016, the existing securitization transaction with the Deutsche Bank Group was renewed for €85 million and is aimed at diversifying funding activities.

Receivables were sold to vehicle companies and not derecognized by BFF, since the sale did not meet the requirements for derecognition, i.e., the transfer of risks and benefits

Debt securities issued also include the bonds issued by the subsidiary Magellan for €95.9 million.

Part B—Consolidated Balance Sheet (Continued)

Section 4—Financial liabilities held for trading—Item 40

€7 thousand

4.1 Financial liabilities held for trading: breakdown by type

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

Key:

FV = fair value

FV* = fair value calculated excluding the changes in value due to the change in the credit class of the issuer as compared with the date of issue.

NA = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

These refer to financial derivatives issued by banks.

The financial instruments recorded in this category, amounting to €7 thousand, are represented by derivative contracts executed for the purpose of hedging the change in exchange rates through the forward sale of foreign currency at a spot rate. These financial derivative contracts are recognized as assets or liabilities held for trading pursuant to the provisions of IAS 39, even though at the operational level they are considered risk hedging instruments.

Part B—Consolidated Balance Sheet (Continued)

Specifically with regard to Magellan, in 2016, foreign exchange swap agreements were executed to hedge the principal and interest on the bonds issued by Magellan (to be repaid in euros), from the fair value changes arising from fluctuations in the euro-zloty exchange rate.

Section 6—Hedging derivatives—Item 60

€176 thousand

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

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

Key:

NV = nominal value

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

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

Part B—Consolidated Balance Sheet (Continued)

The negative fair value, at December 31, 2016, refers to the following type of hedge:

- fair value hedge: foreign exchange swap contracts executed to hedge intragroup loans (between Banca Farmafactoring and Magellan) entered into in 2016 in Polish currency (zloty) and in Czech currency (koruna) from changes in fair value arising from fluctuations in the euro-zloty and euro-koruna exchange rates.

Section 8—Tax liabilities—Item 80

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

Section 10—Other liabilities—Item 100

€54,320 thousand

10.1 Other liabilities: breakdown

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

"Payables to suppliers" and "Invoices to be received" refer to purchases of goods and the performance of services.

"Collections pending allocation" refer to payments received by December 31, 2016 but still outstanding since they had not been cleared and recorded by that date.

"Payables to the tax authorities" relate largely to unpaid withholding taxes on the online deposit accounts and on employee earnings from employment.

"Other payables" include portions of collections not yet transferred, stamp duties payable, payables to directors and other pending items.

Part B—Consolidated Balance Sheet (Continued)

Section 11—Provision for employee severance indemnities—Item 110

€867 thousand

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

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

11.2 Other information

The liability recognized in the financial statements at December 31, 2016 represents the present value of the obligation estimated by an independent actuarial firm.

"Other decreases" include differences resulting from actuarial valuation recognized directly in equity.

Specifically, IAS 19 no longer allows the option of using the corridor method, which was used to defer actuarial gains and losses, requiring instead their immediate recognition in comprehensive income for the year to which they are attributable.

The results of the actuarial measurement reflect the impact of the provisions of Law No. 296/2006 and the computation, for IAS 19 purposes, refers solely to vested employee severance benefits not transferred to supplementary pension funds or to the INPS Treasury Fund.

For details about the actuarial assumptions used to determine the liability at December 31, 2016, reference should be made to the table in Section 12.3 below.

Section 12—Provisions for risks and charges—Item 120

€6,989 thousand

12.1 Provisions for risks and charges: breakdown

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

Part B—Consolidated Balance Sheet (Continued)

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

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

12.3 Defined benefit pension funds

The accrual for the year refers to the following:

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

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

As consideration for this commitment, BFF agrees to pay a specific amount to the employee in semiannual installments.

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

In accordance with the provisions of IAS 19, the corresponding accruals were quantified based on an actuarial calculation performed externally by a specialized firm.

BFF's obligations were computed using the "Projected Unit Credit Method," which treats each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to compute the final obligation, in accordance with Paragraphs 64 and 65 of IAS 19.

This is an actuarial method that entails a valuation aimed at determining the average present value of BFF's obligations.

The main economic and demographic assumptions used for actuarial valuation purposes are the following:

- Non-compete agreements

Part B—Consolidated Balance Sheet (Continued)

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

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

- Deferred bonus:

Discount rate

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

Mortality and disability

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

Frequency of resignations and dismissals

Equal to 3%.

Section 15—Equity—Items 140, 160, 170, 180, 190, 200 and 220

€333,746 thousand

15.1 “Share capital” and “Treasury shares”: breakdown

€130,983 thousand

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

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

Part B—Consolidated Balance Sheet (Continued)

BFF approved a bonus increase in share capital, pursuant to Article 2349 of the Italian Civil Code, up to a maximum of €134,750, corresponding to a maximum number of 1,750 special shares, through the conversion of retained earnings, as shown in the most recently approved financial statements, in a one-time award to be made by June 30, 2016.

The bonus increase in share capital from €130,900,000 to €130,982,698 was registered in the Milan Company Register on June 22, 2016 and 1,074 bonus special shares (6 for each employee) were issued as of the date of May 31, 2016.

The share capital of BFF, at December 31, 2016, thus consists of 1,701,074 shares, described as follows:

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

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

Part B—Consolidated Balance Sheet (Continued)

15.4 Earnings reserves: other information

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

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

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

Changes in reserves are as follows:

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

Legal reserve

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

Retained earnings

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

Part B—Consolidated Balance Sheet (Continued)

Revaluation reserves

Revaluation reserves at December 31, 2016 total €4,495 thousand and mainly include the first-time adoption reserve arising from the revaluation of owned buildings when the transition was made to international reporting standards.

The increase of €311 thousand compared to December 31, 2015 primarily reflects the BFF reserve for hedging derivatives.

Other information

1. Guarantees provided and commitments

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

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

2. Assets pledged to secure Group liabilities and commitments

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

"Available-for-sale financial assets" and "Held-to-maturity financial assets" consist of government securities used as collateral in operations with the ECB and reverse repurchase transactions.

Part B—Consolidated Balance Sheet (Continued)

"Loans and receivables" include €137,380 thousand of receivables sold but not derecognized as part of the current securitization transaction and €332,168 thousand for receivables pledged to secure financing transactions with Ifitalia and Unicredit Factoring. An amount of €160,476 thousand also refers to the Magellan Group's business.

5. Asset management and trading on behalf of others

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

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

Parte C—Consolidated Income Statement

All amounts are expressed in thousands of euros.

Section 1—Interest—Items 10 and 20

1.1 Interest income and similar revenues: breakdown

€190,226 thousand

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

1.3 Interest income and similar revenues: other information

Interest income on "Available-for-sale financial assets" of €491 thousand on "Held-to-maturity financial assets" of €3,503 thousand, was generated by government securities purchased by BFF to hedge liquidity risk and optimize the cost of money.

Interest income is recognized by the amortized cost method, according to which the income generated by such assets is recognized in relation to the return deriving from the expected cash flows.

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

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

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

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

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

Parte C—Consolidated Income Statement (Continued)

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

1.4 Interest expense and similar expenses: breakdown

€31,020 thousand

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

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

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

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

Compared to 2015, interest expenses increased by about €2.1 million due to Magellan's interest expenses which, for the seven months that it has been in the Group, totaled €6.4 million.

Considering only BFF and Farmafactoring España, interest expenses recorded during the year decreased by €4.3 million. The decrease is due to a reduction in the cost of money as a result of renegotiating certain loans and facilities, diversifying the forms of deposit-taking, refinancing the government securities portfolio and despite a greater average financial exposure recorded during the year in order to support the Group's growth.

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

€1 thousand

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

Parte C—Consolidated Income Statement (Continued)

Section 2—Fees and commissions—Items 40 and 50

2.1 Fee and commission income: breakdown

€7,832 thousand

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

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

Parte C—Consolidated Income Statement (Continued)

2.2 Fee and commission expenses: breakdown

€4,478 thousand

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

The increase in expenses from fees and commissions is mainly due to the conclusion of the process to delist the subsidiary Magellan.

In fact, on October 27, 2016 the waiver process for the bonds issued by Magellan was successfully completed and, at the same time, specific waivers were obtained from the holders of the two bonds issued directly by BFF, as well as from the counterparties of some loan agreements entered into by BFF, aimed at preventing that the cross-default clauses in the bonds and in these loan agreements could be triggered in the event of a significant event of default for the Group, which could have been the delisting of Magellan.

Following the positive outcome of the waiver process, the delisting of Magellan's shares does not constitute either an event of default for any of Magellan's bonds or for any other loan of the Group.

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

Section 3—Dividends and similar income—Item 70

3.1 Dividends and similar income

€61 thousand

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

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

Parte C—Consolidated Income Statement (Continued)

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

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

€682 thousand

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

Reconciliation of changes in derivatives

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

Parte C—Consolidated Income Statement (Continued)

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

€1 thousand

5.1 Fair value adjustments in hedge accounting: breakdown

Income components/Amounts	Total 2016	Total 2015
A. Income from:		
A.1 Fair value hedge derivatives	2	—
A.2 Hedged financial assets (fair value)	125	—
A.3 Hedged financial liabilities (fair value)	—	—
A.4 Cash flow hedging derivatives	11	—
A.5 Assets and liabilities denominated in currency	—	—
Total income from hedging activities (A)	**138**	**—**
B. Charges related to:		
B.1 Fair value hedge derivatives	137	—
B.2 Hedged financial assets (fair value)	2	—
B.3 Hedged financial liabilities (fair value)	—	—
B.4 Cash flow hedging derivatives	—	23
B.5 Assets and liabilities denominated in currency	—	—
Total charges from hedging activities (B)	**139**	**23**
C. Net fair value adjustments in hedge accounting (A − B)	**(1)**	**(23)**

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

Section 6—Gains (losses) on disposals and repurchases—Item 100

€706 thousand

6.1 Gains (losses) on disposals and repurchases: breakdown

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

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

Parte C—Consolidated Income Statement (Continued)

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

€2,244 thousand

8.1 Net losses/recoveries on impairment: breakdown

(in € thousands)	Value adjustments			Writebacks					
	Specific			Specific		Portfolio			
	Writebacks	Other	Portfolio	From interest	Other write-backs	From interest	Other write-backs	Total 2016	Total 2015
Transactions/ income components									
A. Due from banks									
—Loans									
—Debt securities									
B. Due from customers:	**(206)**	**(2,657)**	**(260)**		**109**		**834**	**(2,180)**	**(1,126)**
Impaired receivables purchased									
—Loans									
—Debt securities									
Other receivables	**(206)**	**(2,657)**	**(260)**		**109**	**0**	**834**	**(2,180)**	**(1,126)**
—Loans	(206)	(2,657)	(260)		109	0	834	**(2,180)**	**(1,126)**
—Debt securities									
C. Total	**(206)**	**(2,657)**	**(260)**	**0**	**109**	**0**	**834**	**(2,180)**	**(1,126)**

Key:

A = From interest

B = Other writebacks

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

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

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

Parte C—Consolidated Income Statement (Continued)

Section 11—Administrative costs—Item 180

€63,641 thousand

11.1 Personnel costs: breakdown

€24,924 thousand

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

1.2 Average number of employees by category

Employees

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

Since the contracts in the countries in which the Group operates are not the same as Italian contracts, the employees of the foreign companies have been conventionally divided into the executive, supervisors and staff categories.

Magellan staff is considered as part of the Group for the entire year 2016.

Other personnel

Internships: 9

11.4 Other benefits to employees

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

Parte C—Consolidated Income Statement (Continued)

11.5 Other administrative expenses: breakdown

€38,718 thousand

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

The increase is mainly due to the following:

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

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

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

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

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

€2,075 thousand

Parte C—Consolidated Income Statement (Continued)

12.1 Net provisions for risks and charges: breakdown

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

(in € thousands)	Total 2016	Total 2015
Details		
Pension fund and similar obligations	2,069	877
Other provisions	7	2
Total	**2,075**	**879**

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

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

13.1 Net writeoffs/writebacks on property, plant and equipment: breakdown €1,282 thousand

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

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

14.1 Net writeoffs/writebacks on intangible assets: breakdown

€1,334 thousand

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

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

€5,704 thousand

Parte C—Consolidated Income Statement (Continued)

15.1 Other operating expenses: breakdown

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

15.2 Other operating income: breakdown

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

Section 20—Income taxes on profit from continuing operations—Item 290

€26,997 thousand

20.1 Income taxes on profit from continuing operations: breakdown

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

Parte C—Consolidated Income Statement (Continued)

20.2 Reconciliation of theoretical tax and effective tax expense

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

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

Part D—CONSOLIDATED COMPREHENSIVE INCOME

ANALYTICAL STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

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

Part E—Information about risk and related hedging policies

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

Foreword

The Group adopted suitable corporate governance tools and adequate management and control mechanisms in order to mitigate the risks to which it is exposed.

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

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

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

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

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

- cooperating with the corporate governance bodies in defining the overall risk management system and the entire reference framework relating to the assumption and control of the risks of the Group (Risk Appetite Framework);
- establishing adequate risk management processes through the adoption and maintenance of suitable risk management systems, in order to map, measure, control or mitigate all relevant risks;
- providing an assessment of the capital absorbed, also under stress conditions, and the relative adequacy, by defining processes and procedures to meet every type of present and future risk, which take into account strategies and context changes;
- overseeing the implementation of the risk management process and ascertaining that it is being complied with;
- monitoring the adequacy and effectiveness of the actions taken to resolve any weaknesses found in the risk management system;
- submitting periodical reports to the corporate governance bodies on the activities carried out and providing them with consulting support on risk management issues.

Part E—Information about risk and related hedging policies (Continued)

SECTION 1—GROUP RISKS

1.1 Credit risks

Qualitative information

1. General issues

Factoring activities, disciplined by the Italian Civil Code (Book IV—Chapter V, Articles 1260-1267) and Law No. 52 of February 21, 1991 and subsequent laws, consist of a plurality of financial services that can be structured in various ways through the sale of trade receivables on a recourse or non-recourse basis.

A particular characteristic of factoring transactions is the involvement of three different parties:

- Factor (assignee)
- Customer (assignor)
- Debtor (assigned).

2. Credit risk management policies

2.1 Organizational issues

In view of the above considerations, the assessment of a factoring transaction must be conducted through the analysis of a number of factors, ranging from the degree of risk fragmentation to the characteristics of the commercial transaction underlying the credit quality, from the reimbursement ability of the customer assignor to the solvency of the assigned debtors.

The monitoring and management of credit risk starts with a preliminary review of the credit line application, before a factoring service is offered. The various corporate functions collaborate with maximum synergy to provide analytical and subjective assessments of the counterparties, both from a quantitative (current, past and future economic conditions) and qualitative (managerial ability, competitiveness, product prospects and potential credit volumes to be managed) standpoint.

The guidelines and procedures to monitor and control credit risk are set forth in the current "Credit Regulation," approved by the Board of Directors on September 10, 2015. A further organizational safeguard against credit risk is provided by the internal regulation for monitoring credit quality, which describes the credit control process on the debtor and is an integral part of the "Credit Regulation".

Credit risk is therefore adequately safeguarded at various levels within the framework of the multiple operating processes.

2.2 Management, measurement and control systems

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

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

Part E—Information about risk and related hedging policies (Continued)

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

- 0% for receivables from central administrations and central banks with offices in a European Union member state and financed in the local currency;
- 20% for receivables from territorial entities located in a European Union member state, denominated and financed in the local currency, and for receivables from the Public Administration of countries in Credit Quality Class 1.

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

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

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

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

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

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

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

The Risk Weighted Amount (RWA) is determined by the sum of the risk weighted assets of the various classes.

In keeping with the requirements of EU Regulation No. 575/2013 (CRR), moreover, in the scope of consolidation used exclusively for prudential supervisory purposes, BFF Luxembourg S.à r.l. is the parent company. In addition, starting from the reporting at June 30, 2016, the scope of consolidation also includes Magellan, the company acquired by Banca Farmafactoring.

Part E—Information about risk and related hedging policies (Continued)

Based on the method described above, the capital requirement covering credit risk at December 31, 2016 is €83,496 thousand.

The Group's "Credit Regulation" describes the phases that in sector regulations are identified as components of the credit process:

- background check;
- decision;
- disbursement;
- monitoring and review;
- dispute.

In order to identify the most important risk factors, the main activities carried out by the Group are described as follows:

- receivables management only;
- non-recourse factoring.

In the "receivables management only" service the credit risk is considerably reduced because it is limited to the Group's exposure with the customer for payment of the stipulated fees and commissions, or the reimbursement of legal fees incurred. The granting of a credit line for "receivables management only" follows the normal procedures used in the credit process even when the credit line can be approved by a single-person body.

"Non-recourse factoring" by its very nature represents the service that is most exposed to credit risk. For this reason, the background check for the credit line application is carried out with the utmost care and the decision-making power is reserved for designate approval bodies.

"Recourse factoring" is a marginal activity for the Group since this type of factoring is only included in the Magellan product portfolio.

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

- a "large exposure" is defined as any position equal to or greater than 10% of the Admissible Capital, as defined in Regulation No. 575 of 2013 (sum of Class 1 Capital and Class 2 Capital equal to or lower than one-third of Class 1 Capital). For Banca Farmafactoring, the Admissible Capital corresponds to its Own Funds;
- for banking groups and banks not belonging to a banking group, each risk position must not be greater than 25% of its own funds.

In view of the fact that the Group has an exposure that is almost completely comprised of receivables due from the Public Administration, the portfolio risk is thought to be limited.

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

Part E—Information about risk and related hedging policies (Continued)

Qualitative assessment of receivables

The Group performs an impairment test on the receivables portfolio in order to identify any impairment of its financial assets.

This analysis makes it possible to differentiate between performing and non-performing receivables, including in the latter category financial assets that show an individual risk of loss, while the remaining financial assets are classified in the performing category.

Performing receivables

The assessment of performing receivables applies to those receivables from customers that, while more than 90 days past due, show no objective indication of impairment at the individual level.

This representation is consistent with the assessment criterion of receivables purchased on a non-recourse basis at "amortized cost," which, in fact, is based on discounting to present value estimated future cash flows according to an estimate of the time to collection.

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

In order to determine the Loss Given Default (LGD), BFF assumed the value proposed by the "Basel Accord Framework" for unsecured receivables from sovereign states, companies and banks as being equal to 45% of the Probability of Default (PD) found.

The collective assessment of the PD was performed by assigning a rating to the debtors (ASLs/AOs), corresponding to the credit rating assigned by the major rating agencies for the particular Region to which the debtors belong. This product was then applied to the exposures not classified as non-performing Exposures At Default (EAD).

At December 31, 2016, the impairment test indicated an impairment loss of about €3.2 million.

As regards Magellan, the collective impairment is calculated, at this time, exclusively on private counterparties. In this case, Magellan carries out a writedown of the portfolio by applying to the receivable's purchase value a percentage that varies according to the type of counterparty to which the exposure refers. Magellan also assesses whether to record individual impairments by analyzing the economic and financial situation of the debtor and the actual possibility of recovering the receivable.

The impairment policies adopted by Magellan include specific periodic reports sent to BFF so that it can check the correctness of the approach adopted.

Non-performing receivables

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

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

2.3 Credit risk mitigation techniques

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

Part E—Information about risk and related hedging policies (Continued)

2.4 Impaired financial assets

On July 24, 2014, the European Banking Authority (EBA) published the "Final draft implementing technical standards on supervisory reporting of forbearance and nonperforming exposures" (EBA/ITS/2013/03/rev 1 7/24/2014): this document introduces new definitions for impaired assets and forbearance measures.

These definitions, which were adopted by the Bank of Italy with the seventh update to Circular No. 272 of January 20, 2015, call for impaired assets to be classified into the following categories:

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

Past due exposures

These are exposures with central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies that, at December 31, 2016 were more than 90 days past due.

More specifically, exposures with central administrations and central banks, public sector entities and territorial entities, are considered past due when the debtor has not made any payments for any debt positions owed to the financial intermediary for more than 90 days.

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

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

Unlikely to pay

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

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

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

Non-performing exposures

These are exposure with parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections recognized by the company.

At December 31, 2016, total non-performing exposures of the Group, net of writedowns for estimated impairment losses, amount to €12.1 million. Gross non-performing exposures including the provision for late-payment interest amount to €30.0 million and the relative impairment losses total €17.9 million with a coverage ratio of 59.8%.

Part E—Information about risk and related hedging policies (Continued)

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

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

The other non-performing positions total about €8.6 million, including positions amounting to about €1.7 million that were completely written off against the provision for impairment and consequently have a zero balance. BFF's remaining positions, totaling about €6.9 million, are written down based only on the time value, as they consist of positions secured by sureties and exposures with local government entities in distress (including €492 thousand already purchased as distressed), for which no provisions were recognized, as the distressed condition is expected to be remedied resulting in the collection of 100% of the claim.

The portion of late-payment interest relating to non-performing positions, recognized when the estimate criteria were changed, in 2014, amounts to €13.6 million and was completely written off. This refers mainly to the position with Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition agreement with creditors.

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

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

Quantitative information

A. Credit quality

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

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

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

Part E—Information about risk and related hedging policies (Continued)

Amounts due from customers include past due not impaired receivables, pursuant to the provisions of Bank of Italy Circular No. 272 of July 30, 2008 "Account matrix", and subsequent updates, amounting to €398,204 thousand.

All purchases of non-recourse receivables refer to factoring transactions pursuant to Law No. 52/91.

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

(in € thousands)	Impaired assets			Not impaired assets			
	Gross Exposure	Specific impair. loss	Net Exposure	Gross Exposure	Portfolio impair. loss	Net Exposure	Total (net exposure)
Portfolio/Quality							
1. Available-for-sale financial assets				385,086	0	385,086	385,086
2. Held-to-maturity financial assets				1,629,320	0	1,629,320	1,629,320
3. Due from banks				144,871	0	144,871	144,871
4. Due from customers	66,372	4,526	61,847	2,443,009	5,761	2,437,248	2,499,094
5. Financial assets designated at fair value				3,401	0	3,401	3,401
6. Financial assets held for sale							
Total (T)	**66,372**	**4,526**	**61,847**	**4,605,687**	**5,761**	**4,599,926**	**4,661,772**
Total (T-1)	**47,536**	**1,795**	**45,741**	**3,228,064**	**3,750**	**3,224,314**	**3,270,055**

Portfolio/Quality	Subprime assets		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading			244
2. Derivatives			529
Total (T)	—	—	**773**
Total (T-1)	—	—	—

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

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

Part E—Information about risk and related hedging policies (Continued)

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

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

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

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

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

Part E—Information about risk and related hedging policies (Continued)

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

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

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

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

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

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

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

- Item 40—Available-for-sale financial assets (only debt securities), amounting to €385,086 thousand;
- item 50—Held-to-maturity financial assets, amounting to €1,629,320 thousand;

Part E—Information about risk and related hedging policies (Continued)

- item 60—Due from banks, amounting to €144,871 thousand, corresponding to the credit balances in the current accounts of BFF and Farmafactoring España S.A. at the end of the year;
- item 70—Due from customers, amounting to €2,499,094 thousand, equal to the sum of the outstanding exposures at December 31, 2016, net of intercompany transactions.

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

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

Part E—Information about risk and related hedging policies (Continued)

A.3 Breakdown of secured exposures by type of guarantee

A.3.2 Group—Guaranteed credit exposures with customers

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

Part E—Information about risk and related hedging policies (Continued)

B. Breakdown and concentration of credit exposures

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

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

Part E—Information about risk and related hedging policies (Continued)

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

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

Part E—Information about risk and related hedging policies (Continued)

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

	Italy		Other European countries	
Exposures/Geographic region	**Net exposure**	**Total impairment losses**	**Net exposure**	**Total impairment losses**
A. On balance sheet exposures				
A.1 Non-performing	7,194	2,392	4,872	1,950
A.2 Unlikely to pay	—	—	3,614	101
A.3 Past due impaired	45,429	82	739	—
A.4 Not impaired exposures	3,824,180	3,409	627,474	2,352
Total	**3,876,802**	**5,883**	**636,698**	**4,404**
B. Off-balance sheet exposures				
B1 Non-performing	—	—	—	—
B.2 Unlikely to pay	—	—	—	—
B.3 Past due impaired	716	—	—	—
B.4 Not impaired exposures	6,100	—	121,170	—
Total	**6,816**	**—**	**121,170**	**—**
Total (A+B) (T)	**3,883,618**	**5,883**	**757,867**	**4,404**
Total (A+B) (T-1)	**3,110,377**	**5,496**	**221,361**	**50**

	Italy—Northwest		Italy—Northeast		Italy—Central		Italy—South and Islands	
Exposures/Geographical areas	**Net exposure**	**Total impairment losses**	**Net exposure**	**Total impairment losses**	**Net exposure**	**Total impairment losses**	**Net exposure**	**Total impairment losses**
A. On balance sheet exposures								
A.1 Non-performing	905	355	176	78	322	1,159	5,988	800
A.2 Unlikely to pay								
A.3 Past due impaired	4,275	8	1,772	3	5,333	10	34,049	61
A.4 Not impaired exposures	205,990	358	92,641	171	2,788,746	1,232	736,802	1,648
Total	**211,171**	**721**	**94,588**	**253**	**2,794,401**	**2,401**	**776,840**	**2,509**
B. Off-balance sheet exposures								
B1 Non-performing								
B.2 Unlikely to pay								
B.3 Past due impaired	573				38		105	
B.4 Not impaired exposures	659		1,427		2,001		2,013	
Total	**1,233**		**1,427**		**2,038**		**2,118**	
Total (A+B) (T)	**212,403**	**721**	**96,015**	**253**	**2,796,440**	**2,401**	**778,958**	**2,509**
Total (A+B) (T-1)	**174,575**	**622**	**87,416**	**198**	**1,989,217**	**2,808**	**859,180**	**1,867**

Part E—Information about risk and related hedging policies (Continued)

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

Exposures/Geographical areas	Italy		Other European countries	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses
A. On balance sheet exposures				
A.1 Non-performing	—	—	—	—
A.2 Unlikely to pay	—	—	—	—
A.3 Past due impaired	—	—	—	—
A.4 Not impaired exposures	130,381	—	14,490	—
Total	**130,381**	**—**	**14,490**	**—**
B. Off-balance sheet exposures				
B1 Non-performing	—	—	—	—
B.2 Unlikely to pay	—	—	—	—
B.3 Past due impaired	—	—	—	—
B.4 Not impaired exposures	22	—	773	—
Total B	**22**	**—**	**773**	**—**
Total (A+B) (T)	**130,403**	**—**	**15,264**	**—**
Total (A+B) (T-1)	**55,393**		**385**	

Exposures /Geographical areas	Italy—Northwest		Italy—Northeast		Italy—Central		Italy—South and Islands	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses
A. On balance sheet exposures								
A.1 Non-performing								
A.2 Unlikely to pay								
A.3 Past due impaired								
A.4 Not impaired exposures	73,774		20,793		523		35,291	
Total	**73,774**		**20,793**		**523**		**35,291**	
B. Off-balance sheet exposures								
B1 Non-performing								
B.2 Unlikely to pay								
B.3 Past due impaired								
B.4 Not impaired exposures					22			
Total					**22**			
Total (A+B) (T)	**73,774**		**20,793**		**545**		**35,291**	
Total (A+B) (T-1)	**51,495**		**1,909**		**1,389**		**600**	

Part E—Information about risk and related hedging policies (Continued)

B.4 Large exposures

At December 31, 2016, there were 14 "large exposures" meaning—as specified in the Bank of Italy Circular No. 263 of December 27, 2006 "New prudential supervision regulations for banks" and subsequent updates—risk positions equal to or higher than 10% of eligible capital which, for the Group, corresponds to Own Funds.

The nominal unweighted amount of these positions was €4,512,805 thousand, while the weighted positions amounted to €257,451 thousand.

However, none of these positions exceed the individual concentration limit of 25% of eligible capital of the Bank.

C. Securitization transactions

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

C.1 Securitization transactions

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

Qualitative information

Strategies, processes and objectives

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

Characteristics of the transaction

Pursuant to Law No. 130/99, the receivables were sold to an SPV, i.e., Farmafactoring SPV I S.r.l., which financed the purchase of the receivables by issuing securities for €85 million, underwritten by Deutsche Bank A.G.

The renewed structure, after an amortization period that ended on the note payment date of August 25, 2016 (which made it possible to reduce the amount of the securities issued from the original €150 million to the current €85 million), provides for a new revolving period valid until July 31, 2017, during which revolving sales will be made against collections of receivables to maintain the contractually stipulated collateralization ratio.

The late-payment interest collected by the SPV is paid to the Bank, based on available cash, when either the sale and/or requests for payment of collections of receivables sold to the SPV are higher than the overcollateralization ratio established by contract.

At the end of the revolving period there will be a two and a half years amortization period correlated to the performance of existing receivables collection during which the securities will be repaid.

Description of the risk profile

BFF, as the originator, maintains a role in the securitization transaction, even though it sells the receivables on a non-recourse basis.

This transaction calls for a credit enhancement mechanism through an overcollateralization ratio (equal to 137.93% of the amount of the securities issued) and a subordinated loan carried by BFF.

Part E—Information about risk and related hedging policies (Continued)

Following the renewal, the Bank as the assignor, and the SPV, as the issuer, could have:

(i) early terminated the revolving phase at any time up to the January 2017 payment date (by sending the relative communication by December 31, 2016) or, and only as regards BFF,

(ii) terminate the program by buying back all the outstanding receivables by the January 2017 payment date during the revolving phase (by sending the relative communication by December 31, 2016), or at any time during the amortization period.

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

At the end of the transaction, subsequent to the repayment of the securities and other senior transaction expenses, all the remaining amounts from the collection of the receivables sold, including late-payment interest, will belong to BFF, in its capacity as underwriter of the subordinated loan.

Because of this condition, together with BFF's right to buy back and/or substitute the receivables at any time, all of the risks and benefits of the transaction were not transferred to the assignee but remained with BFF. Consequently, the securitization risk is included in the credit risk.

Quantitative information

Types of financial instruments held

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

Sub-servicer activity

BFF, in its capacity as collection agent, handles receivable recovery and collection activities on behalf of the servicer Zenith Service S.p.A.

Following the sales of receivables made to the SPV Farmafactoring SPV I S.r.l., the face amount of the outstanding receivables totaled about €140 million at December 31, 2016.

Part E—Information about risk and related hedging policies (Continued)

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

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

Part E—Information about risk and related hedging policies (Continued)

C.3 Group—Interests in securitization SPVs

			Assets			Liabilities		
(in € thousands)	**Head Office**	**Consolidation**	**Receivables**	**Debt securities**	**Other**	**Senior**	**Mezzanine**	**Junior**
Securitization name / SPV company								
Farmafactoring SPV I S.r.l.	Milan—Via Statuto 10	Full	204,796		20	85,000		

E. Sales transactions

A. Financial assets sold and not fully derecognized

Quantitative information

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

As previously described, at December 31, 2016 there is a transaction still outstanding that was structured with Deutsche Bank on healthcare receivables that were sold but not derecognized since all the risks and rewards of ownership were not transferred upon sale.

The value of the receivables sold and not derecognized amounts to €137,380 thousand.

The other amounts in "Due from customers", for a total of €332,168 thousand, refer to the receivables pledged as collateral for the financial transactions with Ifitalia and Unicredit Factoring and €160,476 for the loans taken out by Magellan.

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

Qualitative information

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

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

Key:

A= financial assets sold and fully recognized (carrying amount)

B= financial assets sold and partially recognized (carrying amount)

C= financial assets sold and partially recognized (total amount)

Part E—Information about risk and related hedging policies (Continued)

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

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

1.2 Group—Market risks

1.2.1 Interest rate risk and price risk—Regulatory trading portfolio

Qualitative information

A. General remarks

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

With regard to Magellan, the portfolio is mainly represented by variable rate exposures (about 60% of the assets).

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

Part E—Information about risk and related hedging policies (Continued)

Quantitative information

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

Currency: EURO	on demand	up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	over 10 years	unspecified maturity
Type/Residual maturity								
1. Balance sheet assets								
1.1 Debt securities								
—with prepayment option								
—other								
1.2 Other assets								
2. Balance sheet liabilities								
2.1 Repo liabilities								
2.2 Other liabilities								
3. Financial derivatives		**22,579**	**100**	**14,000**	**6,500**			
3.1 With underlying security								
—Options								
+ long positions								
+ short positions								
—Other derivatives								
+ long positions								
+ short positions								
3.2 With underlying security		22,579	100	14,000	6,500			
—Options								
+ long positions								
+ short positions								
—Other derivatives		22,579	100	14,000	6,500			
+ long positions		*22,579*	*100*	*14,000*	*6,500*			
+ short positions								

Currency:OTHER	on demand	up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	over 10 years	unspecified maturity
Type/Residual maturity								
1. Balance sheet assets								
1.1 Debt securities								
—with prepayment option								
—other								
1.2 Other assets								
2. Balance sheet liabilities								
2.1 Repo liabilities								
2.2 Other liabilities								
3. Financial derivatives		**22,626**	**4,635**	**18,828**	**6,694**			
3.1 With underlying security								
—Options								
+ long positions								
+ short positions								
—Other derivatives								
+ long positions								
+ short positions								
3.2 With underlying security		22,626	4,636	18,828	6,694			
—Options								
+ long positions								
+ short positions								
—Other derivatives		22,626	4,636	18,828	6,694			
+ long positions				4,535				
+ short positions		*22,626*	*4,636*	*14,293*	*6,694*			

Part E—Information about risk and related hedging policies (Continued)

1.2.2 Interest rate risk and price risk—Banking portfolio

Qualitative information

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

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

The sensitivity analysis of the interest rate requires the construction of a management framework that makes it possible to highlight the exposure, represented:

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

The method used calls for:

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

The total weighted exposure represents the change in the present value of cash flows, generated by the hypothetical interest rate scenario.

The Group regularly monitors interest rate risk, as well its management, through a specific reporting.

The assumption of interest rate risk in connection with BFF's funding activity can only occur in compliance with the policies and limits set by the Board of Directors. It is governed by specific powers delegated in this area, which set independence limitations for the parties authorized to operate in the Finance Department.

The corporate functions responsible for ensuring the proper management of interest rate risk are the Finance Department, the Risk Management Function and senior management, which annually submits to the Board of Directors proposals for lending and funding policies and interest rate risk management and recommends, if necessary, any opportune actions to ensure that business is carried out consistently with the risk management policies approved by BFF.

The interest rate risk position is reported on a quarterly basis to BFF's senior management and Board of Directors, in accordance with the procedures established by the Risk Management Function for senior management.

Furthermore, at the operational level, on a monthly basis, the Finance Department monitors the interest rate risk, as well its management, through a specific reporting.

Part E—Information about risk and related hedging policies (Continued)

B. Fair value hedging activities

BFF executed foreign exchange swap contracts to hedge intragroup loans (between Banca Farmafactoring and Magellan), entered into in 2016 in Polish currency (zloty) and in Czech currency (koruna), from changes in fair value arising from fluctuations in the euro-zloty and euro-koruna exchange rates.

There are also foreign exchange contracts designed to hedge the principal on the bonds issued by Magellan (to be repaid in euros), executed during 2016, from fair value changes arising from fluctuations in the exchange rate.

Foreign exchange swap agreements were executed to hedge the principal and interest on the bonds issued by Magellan (to be repaid in euros) from the fair value changes arising from fluctuations in the euro-zloty exchange rate.

The Group executed three foreign exchange swap contracts executed to hedge intragroup loans (between Banca Farmafactoring and Magellan) entered into 2016 in Polish currency (zloty) and in Czech currency (koruna) from changes in fair value arising from fluctuations in the euro-zloty and euro-koruna exchange rates

C. Cash flow hedging activities

Contracts outstanding (in € units):

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

Hedging transactions are aimed at neutralizing potential losses attributable to specific types of risks.

BFF uses interest rate swaps (IRS) as tools to hedge the interest rate applied to its funding.

Like all derivatives, hedging financial derivatives are initially recognized at fair value and subsequently measured at fair value.

When a financial instrument is designated as a hedge, BFF formally documents the relationship between the hedging instrument and the hedged item.

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

The provisions of IAS 39 require:

- documenting both the hedged item and the hedging instrument;
- carrying out retrospective quantitative tests to determine the effectiveness of the hedge.

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

Part E—Information about risk and related hedging policies (Continued)

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

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

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

Part E—Information about risk and related hedging policies (Continued)

Quantitative information

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

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

Part E—Information about risk and related hedging policies (Continued)

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

Part E—Information about risk and related hedging policies (Continued)

1.2.3 Exchange rate risk

Qualitative information

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

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

The Group's asset portfolio at December 31, 2016 is denominated as follows:

- euro;
- Polish zloty;
- Czech koruna.

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

B. Hedging of exchange rate risk

Exchange rate risk is hedged by instruments that are linear and without optional components such as forex swaps and forex forwards. These offer the Group an adequate hedge of exchange rate risk on the loans in foreign currency extended to the subsidiaries that operate in currencies other than the euro.

The Group companies use the same instruments noted above to hedge exchange rate risk, after checking with BFF.

Quantitative information

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

Part E—Information about risk and related hedging policies (Continued)

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

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

Part E—Information about risk and related hedging policies (Continued)

1.2.4 Derivatives

A. Financial derivatives

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

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

Part E—Information about risk and related hedging policies (Continued)

A.2 Banking portfolio: year-end notional amounts

A.2.1 Hedging derivatives

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

Part E—Information about risk and related hedging policies (Continued)

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

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

Part E—Information about risk and related hedging policies (Continued)

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

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

1.3 Group—Liquidity risk

Qualitative information

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

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

Liquidity risk may be incurred through the following risk components:

- Liquidity Mismatch Risk, which it is the risk of a mismatch between the amounts and/or timing of inflows and outflows.
- Liquidity Contingency Risk, which is the risk that future unexpected events may require a materially larger amount of liquidity than the business currently requires in a normal going concern scenario.

Part E—Information about risk and related hedging policies (Continued)

This risk may be generated by such events as the failure to renew loans, the need to finance new activities, the difficulty in disposing of liquid assets or obtaining new loans in the event of a liquidity crisis.

- Market Liquidity Risk, which is the risk of incurring losses on liquidating assets that would be considered liquid under normal market conditions, or the seller is forced to keep those assets in the absence of a market for them.
- Operational Liquidity Risk, which is the risk of being unable to fulfill payment obligations due to errors, violations, interruptions or damages caused by internal processes, persons or external events, while remaining solvent.
- Funding Risk, which is the risk of incurring a loss due to the inability to access sources of financing at an affordable cost to meet obligations and/or a possible increase in the costs of funding due to a change in rating (internal factor) and/or a widening of credit spreads (external factor).

The Group, as required by the provisions of the prudential supervision regulation published by the Bank of Italy, adopted a "Risk Management Regulation" and a "Treasury and Finance Regulation" aimed at maintaining a high degree of diversification, in order to reduce liquidity risk, and identifying the governance and control principles and the organizational units responsible for the operational and structural management of liquidity risk.

These internal regulations define:

- the liquidity risk management criteria adopted, defined in relation to the specific operations of the Group and the potential sources of liquidity risk;
- the operating procedures through which the Group monitors this risk, which include a diversification of short-term assets (operational liquidity management) and medium-term assets (structural liquidity management);
- the criteria for defining and performing stress tests, aimed at measuring in quantitative terms the Group's ability to handle potential adverse events that could affect the level of liquidity risk;
- a contingency funding plan that specifies the strategies and operational modalities for the management of early warning, warning and crisis situations, as well as the resulting roles and responsibilities.

To ensure the implementation of the liquidity risk management and control processes, the Group adopted a governance model based on the following principles:

- separation of the processes for the management of liquidity and processes for the control of liquidity risk;
- development of processes to manage and control liquidity risk, consistent with the Group's hierarchical structure and through a process for the delegation of powers;
- sharing of the decisions and clarity of responsibilities among management, control and operational entities;
- making liquidity risk management and monitoring processes consistent with prudential supervisory guidelines.

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

Part E—Information about risk and related hedging policies (Continued)

Quantitative information

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

Euro Items/Maturity	On demand	1 to 7 days	7 to 15 days	15 days to1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
Balance sheet assets	**692,225**	**9,955**	**56,079**	**22,650**	**252,928**	**685,466**	**679,581**	**1,593,286**	**55,899**	
A.1 Government securities			50,124		222,737	506,051	363,439	872,247		
A.2 Other debt securities										
A.3 Units in investments funds										
A.4 Loans	692,225	9,955	5,954	22,650	30,190	179,415	316,142	721,039	55,899	
—due from banks	131,455	5,174								
—customers	560,769	4,781	5,954	22,650	30,190	179,415	316,142	721,039	55,899	
Balance sheet liabilities	**194,013**	**353,675**	**325,232**	**702,496**	**349,015**	**823,287**	**777,762**	**566,193**		**4,636**
B.1 Deposits and current accounts due to	34,647	25,073	19,638	38,451	211,084	231,795	494,228	292,835		
—banks	*107*	*5,000*	*0*	*0*	*67,000*	*67,500*	*250,000*	*133,231*		
—customers	*34,540*	*20,073*	*19,638*	*38,451*	*144,084*	*164,295*	*244,228*	*159,604*		
B.2 Debt securities issued	0	0	0	0	9,725	303,339	13,300	156,500		
B.3 Other liabilities	159,366	328,602	305,594	664,045	128,206	288,153	270,233	116,858		4,636
Off-balance sheet transactions			**7,000**	**18,388**	**72,480**	**115**	**14,273**	**6,685**		**0**
C.1 Financial derivatives with exchange of capital			7,000	18,388	62,024					
—long positions			*7,000*	*18,388*	*62,024*					
—short positions										
C.2 Financial derivatives without exchange of capital					10,456	115	14,273	6,685		
—long positions					*10,456*	*115*	*14,273*	*6,685*		
—short positions										
C.3 Deposits and loans to be received										
—long positions										
—short positions										
C.4 Irrevocable commitments to disburse funds										
—long positions										
—short positions										
C.5 Financial guarantees provided										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
—long positions										
—short positions										
C.8 Credit derivatives without exchange of capital										
—long positions										
—short positions										

Part E—Information about risk and related hedging policies (Continued)

Other currencies Items/Maturity	On demand	1 to 7 days	7 to 15 days	15 days to1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
Balance sheet assets	**27,311**	**601**	**1,901**	**287**	**29,814**	**11,940**	**62,126**	**138,784**	**87,121**	**18,892**
A.1 Government securities										
A.2 Other debt securities										
A.3 Units in investments funds										
A.4 Loans	27,311	601	1,901	287	29,814	11,940	62,126	138,784	87,121	18,892
—due from banks	*55*									
—customers	*27,256*	*601*	*1,901*	*287*	*29,814*	*11,940*	*62,126*	*138,784*	*87,121*	*18,892*
Balance sheet liabilities	**0**	**151**	**0**	**4,660**	**88,709**	**41,451**	**25,415**	**162,223**	**1,843**	**20,735**
B.1 Deposits and current accounts due to	0	151	0	2,059	6,720	8,613	14,245	82,549	0	1,843
—banks		*151*		*2,059*	4,118	8,613	*14,245*	82,549		
—customers					*2,601*					*1,843*
B.2 Debt securities issued						27,152	11,170	28,497		
B.3 Other liabilities	0	0	0	2,601	81,989	5,686	0	51,176	1,843	18,892
Off-balance sheet transactions	**0**	**0**	**7,000**	**18,388**	**72,480**	**115**	**14,656**	**6,685**	**0**	**0**
C.1 Financial derivatives with exchange of capital	0	0	7,000	18,388	62,024	0	0	0	0	
—long positions										
—short positions			*7,000*	*18,388*	*62,024*					
C.2 Financial derivatives without exchange of capital	0	0	0	0	10,456	115	14,656	6,685	0	0
—long positions							*253*			
—short positions					*10,456*	*115*	*14,403*	*6,685*		
C.3 Deposits and loans to be received										
—long positions										
—short positions										
C.4 Irrevocable commitments to disburse funds										
—long positions										
—short positions										
C.5 Financial guarantees provided										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
—long positions										
—short positions										
C.8 Credit derivatives without exchange of capital										
—long positions										
—short positions										

1.4 Group—Operational risk

Qualitative information

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

Operational risk is the risk of incurring a loss due to inadequacy or failures of procedures, human resources and internal systems or as a result of external events. This category includes, among other, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk also includes legal risk but not strategic and reputational risks.

Operational risk therefore refers to various types of events that would not be significant individually unless analyzed together and quantified for the entire risk category.

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

The process adopted by the Group to manage and control operational risks is founded on the principle of promoting a corporate culture for managing risk and defining the appropriate standards and incentives,

Part E—Information about risk and related hedging policies (Continued)

with the aim of fostering the adoption of professional and responsible behavior at all operational levels, as well as the design, implementation and management of an integrated system for operational risk management that is adequate in relation to the nature, activities, size and risk profile.

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

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

- Money laundering risk, regarding the risk that financial and commercial counterparties and Group vendors, partners, associates and consultants may be parties to transactions that might potentially facilitate the laundering of money coming from illegal or criminal activities;
- Compliance risk, regarding the risk of legal and administrative penalties, significant financial losses or reputational losses due to failure to comply not only with laws and regulations but also with internal and conduct standards applicable to corporate activities. For this type of risk, a review is performed annually of the related assessment methodology, developed for all activities falling within the scope of the Group's regulatory framework, in accordance with a risk-based approach. More specifically, for the relevant laws that do not call for the establishment of specialized functions (i.e., privacy and occupational health and safety), the Compliance Function provides ex ante consulting support to BFF's functions and assesses ex post the adequacy of the organizational measures and control activities adopted in accordance with the Compliance Risk Assessment method. As for laws and regulations monitored by specialized functions, the Compliance Function carries out an indirect control by cooperating with the specialized functions in defining compliance risk assessment methods in addition to mapping risks and the corresponding controls (Compliance Risk Matrix).

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

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

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

Quantitative information

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

SECTION 3—RISKS OF THE OTHER COMPANIES

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

The SPV Farmafactoring SPV I S.r.l. was established for the securitization transaction structured by Deutsche Bank and was included in the scope of consolidation consistent with the requirements of the IAS/IFRS accounting standards which establish the obligation to consolidate a special purpose entity when, even absent an investment relationship, the company that prepares the financial statements, in substance, controls the special purpose entity.

In any event, this company does not show further and relevant risk factors, other than those mentioned in the preceding paragraphs.

Part F—Information on Consolidated Equity

In accordance with the provisions of EU Regulation No. 575/2013 (CRR), the scope of consolidation used solely for purposes of prudential supervisory reporting, starting from December 31, 2015, includes, besides the companies in the Banking Group, BFF Luxemburg S.à r.l and, for reporting at December 31, 2015 and March 31, 2016, also BFF Lux Holdings S.à r.l., the company put into liquidation on June 20, 2016.

For the purposes of the other parts of the consolidated financial statements and submission of so-called non-harmonized reporting, the reference continues to be that of the Banking Group pursuant to the Consolidated Law on Banking.

As for this Part F, therefore, Section 1 reports the data of the Banking Group, while Section 2 refers to the scope of consolidation envisaged by the CRR for prudential purposes, unless otherwise indicated.

Section 1—Consolidated equity

A. Qualitative information

The Group's equity represents the aggregate of share capital, reserves, revaluation reserves and profit for the year.

The aggregate equity relevant for supervisory purposes is computed in accordance with the instructions of the Bank of Italy currently in effect and constitutes the reference safeguard of the prudential supervisory regulations.

B. Quantitative information

B.1 Consolidated equity: breakdown by type of company

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

Part F—Information on Consolidated Equity (Continued)

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

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

Available-for-sale financial assets are recognized at fair value. At the end of the year, the carrying amount of the securities must be compared with their amortized cost and any difference is recognized in equity under the revaluation reserves. This measurement led to the recognition at December 31, 2016 of a positive reserve of €471 thousand relative to government securities recorded in the BFF available-for-sale portfolio.

B.3 Revaluation reserves for available-for-sale financial assets: year-over-year change

(in € thousands)	Debt securities	Equity securities	Units in investment funds	Loans
1. Beginning balance	**481**			
2. Positive changes				
2.1 Increases in fair value	471			
2.2 Reclassification of negative reserves to income statement:				
—due to impairments				
—following disposal				
2.3 Other changes				
3. Negative changes				
3.1 Decreases in fair value				
3.2 Impairment losses				
3.3 Reclassification of positive reserves to income due to disposal	(481)			
3.4 Other changes				
4. Ending balance	**471**			

B.4 Revaluation reserves related to defined benefit plans: year-over-year change

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

The results of the actuarial valuation reflect the impact of the provisions of Law No. 296/2006 and the computation, for IAS 19 purposes, refers solely to vested employee severance indemnity that was not transferred to supplemental pension funds or to the INPS Treasury Fund.

This revaluation reserve is a negative €144 thousand at December 31, 2016.

Part F—Information on Consolidated Equity (Continued)

Section 2—Own Funds and banking regulatory ratios

2.1 Scope of implementation of the regulation

Own Funds are computed, starting on January 1, 2014, according to the EU Regulation No. 575/2013 relative to the new regulations harmonized for banks and investment companies, contained in the EU Capital Requirements Regulation (CRR) and in the EU Capital Requirement Directive (CRD IV) of June 26, 2013, which became applicable based on Bank of Italy Circular No. 285 "Oversight provisions for banks" and Circular No. 286 "Instructions for the preparation of supervisory reporting by banks and securities intermediaries," both dated December 17, 2013.

These regulations incorporate the standards set forth by the Basel Committee for banking regulations (known as the Basel 3 Framework), the implementation of which, pursuant to the Consolidated Law on Banking, is the responsibility of the Bank of Italy, and define the ways with which the discretionary authority attributed by EU laws to national authorities may be exercised.

In keeping with the requirements of EU Regulation No. 575/2013 (CRR), starting with the reporting at December 31, 2015, in the scope of consolidation used exclusively for prudential supervision purposes, BFF Lux Holdings S.à r.l. was the parent company. This company was put into liquidation on June 20, 2016 and, therefore, in relation to the reporting from June 30, 2016, BFF Luxembourg S.à r.l. is the new parent company.

2.2 Own Funds

A. Qualitative information

Own Funds represent the first line of defense against risks associated with the complexity of financial activities and constitute the main parameter of reference for the assessment of capital adequacy of the Group.

The purpose of prudential supervision regulations is to ensure that all credit intermediaries have a minimum obligatory capitalization in relation to the risks assumed.

The Group constantly assesses its capital structure, developing and employing techniques for monitoring and managing regulated risks, also through a Risk Committee, in its capacity as the responsible multi-member internal body.

From the standpoint of prudential supervision, the amount of capital required is determined based on the current reporting regulations.

Own Funds are the sum of Common Equity Tier 1 Capital (CET1), Additional Tier 1 Capital (AT1) and Tier 2 Capital (T2), net of items to be deducted and IAS/IFRS prudential filters.

The main components of the Group's Own Funds are computed in Common Equity Tier 1 (CET1), and are the following:

- paid-in share capital;
- reserves (legal reserve, extraordinary reserve, retained earnings);
- undistributed portion of the profit for the year;
- revaluation reserves: actuarial gains (losses) relating to defined benefit plans;
- revaluation reserves: special revaluation laws;
- any non-controlling interests eligible for inclusion in the computation of CET1.

Other intangible assets, including goodwill, if any, are deducted from the above.

Part F—Information on Consolidated Equity (Continued)

As regards the prudential treatment of unrealized gains or losses relating to exposures with the central administrations classified in the "'Available-for-sale" portfolio", the CRR requires banks to include such reserves in the Own Funds.

On January 24, 2014, BFF's Board of Directors decided to exercise the option permitted by the Bank of Italy Circular No. 285 of December 17, 2013—Section II, Paragraph 2, last sentence, wherein it is stated that banks have the option of "not including in any component of Own Funds unrealized gains or losses relating to exposures with the central administrations classified in the 'Available-for-sale' category of IAS 39, as approved by the EU" (option allowed also under Supervisory Bulletin No. 12 of December 2013, in the paragraph relating to "Own Funds Regulations").

Therefore, as reasserted by the Bank of Italy Communication No. 90517/17 of January 24, 2017, and until the end of the transition period, that is, until the adoption of IFRS 9 (now January 1, 2018), the companies belonging to the Group will not include in Own Funds unrealized profit or loss relative to the above exposures.

Additional Tier 1 Capital (AT1) and Tier 2 Capital (T2) include exclusively the non-controlling interests given recognition to in consolidated Own Funds, in accordance with the CRR, Part 2—Title II "Non-controlling interests and additional Tier 1 and Tier 2 Class 1 and equity instruments issued by affiliates.

In relation to the determination of non-controlling interests in Additional Tier 1 Capital and in Tier 2 Capital, account is taken, as reported in the Bank of Italy Circular No. 285, of the transitory factor applicable pursuant to Article 480, paragraphs 2 and 3 of the CRR, equal to 0.6 for the current year.

Own Funds amount to €234.7 million compared to €258 million at December 31, 2015. The difference is mainly due to the acquisition of the Magellan Group which led to the recognition of goodwill, a deduction from Own Funds, equal to €22.1 million.

Part F—Information on Consolidated Equity (Continued)

B. Quantitative information

(in € thousands) Items/Amounts	Total 12/31/2016	Total 12/31/2015
A. Common Equity Tier 1—CET1 before the application of prudential filters	**470,535**	**458,568**
CET1 instruments subject to transitory provisions		
B. CET1 prudential filters (+/−)		
C. CET1 gross of items to be deducted and of the transitory regime effects (A +/− B)	470,535	458,568
D. Elements to be deducted from CET1	**(241,744)**	**(208,618)**
E. Transitory regime—Impact on CET1 (+/−), including minority interests subject to transition requirements	**3,073**	**5,425**
F. Total Common Equity Tier 1—CET1 capital (C − D +/− E)	**231,865**	**255,376**
G. Additional Tier1—AT1 capital gross of items to be deducted and of the transitory regime effects	**2,047**	**1,794**
AT1 instruments subject to transitory provisions		
H. Elements to be deducted from AT1		
I. Transitory regime—Impact on AT1 (+/−), including instruments issued by subsidiaries and included in AT1 due to transitional provisions	**(819)**	**(660)**
L. Total Additional Tier1—AT1 capital (G − H +/− I)	**1,228**	**1,134**
M. Tier2—T2 capital gross of items to be deducted and of the transitory regime effects	**2,620**	**2,297**
T2 instruments subject to transitory provisions		
N. Elements to be deducted from T2		
O. Transitory regime—Impact on T2 (+/−), including instruments issued by subsidiaries and included in T2 due to transitional provisions	**(1,048)**	**(844)**
P. Total Tier 2—T2 capital (M − N +/− O)	**1,572**	**1,452**
Q. Total Own Funds (F + L + P)	**234,665**	**257,962**

Part F—Information on Consolidated Equity (Continued)

Own Funds of the Group pursuant to the Consolidated Law on Banking amount to €235.3 million at December 31, 2016, compared to €259.3 million at December 31, 2015, as presented in the following table.

Items/Amounts	Total 12/31/2016	Total 12/31/2015
A. Common Equity Tier 1—CET1 before the application of prudential filters	**261,139**	**262,012**
CET1 instruments subject to transitory provisions		
B. CET1 prudential filters (+/−)		
C. CET1 gross of items to be deducted and of the transitory regime effects (A +/− B)	261,107	262,012
D. Elements to be deducted from CET1	**(25,795)**	**(2,747)**
E. Transitory regime—Impact on CET1 (+/−), including minority interests subject to transition requirements		
F. Total Common Equity Tier1—CET1 capital (C − D +/− E)	**235,345**	**259,265**
G. Additional Tier1—AT1 capital gross of items to be deducted and of the transitory regime effects		
AT1 instruments subject to transitory provisions		
H. Elements to be deducted from AT1		
I. Transitory regime—Impact on AT1 (+/−), including instruments issued by subsidiaries and included in AT1 due to transitional provisions		
L. Total Additional Tier 1—AT1 capital (G − H +/− I)		
M. Tier2—T2 capital gross of items to be deducted and of the transitory regime effects		
T2 instruments subject to transitory provisions		
N. Elements to be deducted from T2		
O. Transitory regime—Impact on T2 (+/−), including instruments issued by subsidiaries and included in T2 due to transitional provisions		
P. Total Tier 2—T2 capital (M − N +/− O)		
Q. Total Own Funds (F + L + P)	**235,345**	**259,265**

In this case, too, the difference is mainly due to the acquisition of the Magellan Group, which led to the recognition of goodwill, a deduction from Own Funds, equal to €22.1 million.

2.3 Capital adequacy

A. Qualitative information

Compliance with capital adequacy limits, both for the CET 1 Capital Ratio, Tier 1 Capital Ratio and the Total Capital Ratio, is constantly monitored by the relevant corporate bodies.

The CET 1 Capital Ratio is the ratio of Common Equity Tier 1 Capital to the amount of Risk-Weighted Assets.

The Tier 1 Capital Ratio is the ratio of Tier 1 Capital to the amount of Risk-Weighted Asset.

The Total Capital Ratio is the ratio of Own Funds to the amount of Risk-Weighted Assets.

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

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

Part F—Information on Consolidated Equity (Continued)

The *CET 1 Capital Ratio* is 16.4%;

The *Tier 1 Capital Ratio* is 16.5%

The *Total Capital Ratio* is 16.6%.

These ratios do not include the net profit of the Group.

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

From the standpoint of operations, the absorption of risks is calculated using various methods:

- credit risk → standardized approach;
- counterparty risk → standardized approach;
- operational risk → basic approach;
- market risk → standardized approach.

Credit risk

The adoption of the "Standardized" approach involves dividing the exposures into various classes ("portfolios") based on the type of counterparty, and applying diversified weighting coefficients to each portfolio.

More specifically, for the "Central administrations and central banks" portfolio, the weighting depends on the rating assigned by the ECAIs and the ECAs to the individual countries. For the "Supervised intermediaries" portfolio, the weighting depends on the rating of the country where the supervised intermediary has its headquarters. For the "public sector entities" portfolio, the rules for weighting are the same as those for supervised intermediaries.

With regard to the reporting of Own Funds and capital requirements, the credit assessment agency (ECAI) for exposures to central administrations and central banks recognized by BFF is DBRS, with the "Unsolicited" type of rating.

For the calculation of credit risk, the Group applies the following weighting factors established by the CRR and introduced into the Bank of Italy's regulation on "Prudential Supervision:

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

Part F—Information on Consolidated Equity (Continued)

- 100% for receivables from private debtors;
- 100% for property, plant and equipment, equity investments, investment funds and other assets;
- 150% for past due loans;
- 100% for past due loans, if the specific value adjustments are 20% or more of the non-collateralized portion, before value adjustments.

The unsolicited rating assigned to the Italian Republic by DBRS, on January 13, 2017, went from "A low" to "BBB high" and, consequently, the country was downgraded from Credit Quality Class 2 to Credit Quality Class 3.

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

The Group is already putting into place capital management measures to meet the needs in terms of capital requirements, following the impacts of the aforementioned downgrade.

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

Capital requirement = 8% RWA

The Risk-Weighted Amount is determined by the sum of the risk-weighted assets of the various classes.

Counterparty risk

Counterparty risk represents a particular type of credit risk, which generates a loss if the transactions executed with a given counterparty have a positive value in the event of default.

For BFF, the counterparty risk can be generated by repurchase agreements having as a counterparty Cassa Compensazione e Garanzia. The counterparty risk from repurchase agreements is measured using the simplified approach.

Operational risk

The Group measures market risk using the "Basic" approach: the capital requirement is determined by applying a 15% coefficient to the three-year average of the relevant indicator, calculated on the financial statements items of the last three years, in accordance with European Regulation No. 575/2013.

Market risk

The Group measures market risk using the "Standardized" method. The regulation identifies and regulates the treatment of the various types of market risk in reference to the regulatory trading book.

Pillar II—The ICAAP Summary

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

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

Part F—Information on Consolidated Equity (Continued)

B. Quantitative information

The following table presents the capital adequacy relating to the scope of consolidation, used for prudential supervisory purposes only, which calls for BFF Luxembourg S.à r.l. as the parent.

Categories/Amounts	Unweighted assets		Weighted assets/ Requirements	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized approach	4,767,310	3,341,071	1,043,698	763,362
2. Internal rating based approach				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			83,496	61,068
B.2 Credit valuation adjustment risk				
B.3 Settlement risk			76	
B.4 Market risk				
1. Standardized approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach				
2. Standardized approach			29,775	24,457
3. Advanced approach				
B.6 Other calculation elements				
B.7 Total capital requirements				
B. REGULATORY CAPITAL REQUIREMENTS			**113,347**	**85,525**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			1,416,833	1,069,063
C.2 Common Equity Tier 1 Capital/Risk-weighted assets (CET1 capital ratio) (%)			**16.4%**	**23.9%**
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			**16.5%**	**24.0%**
C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)			**16.6%**	**24.1%**

The capital ratios show a reduction principally due to the acquisition of the Magellan Group, which contributed about €27 million to the increase in total capital requirements.

Part F—Information on Consolidated Equity (Continued)

The following table gives the capital requirements, for the dates indicated, relative to the scope of consolidation of the Group pursuant to the Consolidated Law on Banking.

Categories/Amounts	Unweighted assets		Weighted assets/ requirements	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized approach	4,736,264	3,336,877	1,037,483	760,111
2. Internal rating based approach				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			82,998	60,809
B.2 Credit valuation adjustment risk				
B.3 Settlement risk			76	
B.4 Market risk				
1. Standardized approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach				
2. Standardized approach			29,775	24,457
3. Advanced approach				
B.6 Other calculation elements				
B.7 Total capital requirements				
B. REGULATORY CAPITAL REQUIREMENTS			**112,849**	**85,266**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			1,410,612	1,065,819
C.2 Common Equity Tier 1 Capital/Risk-weighted assets (CET1 capital ratio) (%)			**16.7%**	**24.3%**
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			**16.7%**	**24.3%**
C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)			**16.7%**	**24.3%**

Part G—Business combinations

Section 1—Transactions closed during the year

1.1 Business combinations

Acquisition of the Magellan Group

The acquisition of Magellan offers the Group the possibility of growing significantly through exposure on markets experiencing growth and expansion of the range of products and services. With the Magellan acquisition, the Group will be able to operate in a position of leadership on the Polish market of alternative financing in the hospital area.

Magellan is also a major non-banking player in financial services offered to hospitals and the healthcare sector in Slovakia where it has replicated its business model in recent years by establishing consolidated relations with 36 healthcare structures, representing about 50% of the main structures that supply healthcare services on Slovakian territory.

Part G—Business combinations (Continued)

Details of the acquisition transaction are as follows:

Name	Transaction date	Transaction cost	Holding %	Profit for the year 2015	Profit for the period at the acquisition date
Magellan Group	June 2016	€103.1 million	100%	PLN 43.2 million	PLN 17.3 million

On January 8, 2016, Mediona, a Polish subsidiary of BFF, announced to the market and to the Polish Financial Supervisory Authorities (KNF), the launch of a tender offer for a maximum 6,720,037 shares equal to the entire share capital of Magellan, with the aim of delisting the shares.

All the conditions were satisfied and the tender offer for the shares expired on May 27, 2016, with Mediona acquiring 97.127% of Magellan share capital tendered during the offering period.

Consequently, in line with the timing announced to the market, on June 1, 2016, Mediona went ahead with the purchase at the Warsaw Stock Exchange of the Magellan shares tendered and, subsequently, on the June 3, 2016 (settlement date), Mediona made the payment due on the 6,526,941 shares tendered, equal to PLN 443,831,988 (a per share price of PLN 68).

The percentage of shares tendered gave Mediona the possibility of exercising a squeeze-out for the shares in Magellan that were not tendered.

As a result of the conclusion of the relative procedure on June 30, 2016, Mediona holds 98,996% of Magellan's shares with payment of another PLN 8,542,500. Magellan holds treasury shares corresponding to 1.004% of share capital, which summed with those acquired by Mediona, gives 100% control.

Overall, about €103.1 million, including €22.1 million of goodwill, was paid for the acquisition of the Magellan Group. Pursuant to IFRS 3, within 12 months of the acquisition date, the purchase price must be allocated to the balance sheet components of the acquired entity (Purchase Price Allocation—PPA), to determine the final value of goodwill. At each year end reporting date, an impairment test of the amount recognized as goodwill will be performed to determine any impairment loss.

The tender offer was subject to receipt of approval by BFF from the Bank of Italy which was received on May 18, 2016. The authorization from the Polish Competition Authority was instead received on February 17, 2016.

The Magellan shareholders' meeting met on September 30, 2016 and approved the delisting of the shares issued by Magellan and, consequently, on December 1, 2016 the Warsaw Stock Exchange ordered the delisting of Magellan shares from the main Warsaw Stock Market, effective beginning December 6, 2016.

On December 16, 2016, the merger of Mediona with and into Magellan was registered with the Lodz registry office, with the acquisition, by BFF, of 67,471 treasury shares held by Magellan for PLN 23 million, equal to €5.2 million, which increased the value of the investment by the same amount.

The above transaction, entered into solely for the purpose of the company's reorganization, is a transaction among companies under common control pursuant to IFRS 3 and was carried out using the carrying amounts and, therefore, did not have any effect on the consolidated financial statements.

Finally, it should be noted that on May 27, 2016, a loan contract was signed with Unicredit Group for the acquisition of Magellan S.A.

The loan was made for a total amount of about PLN 355 million, about 80% of the value of the public tender offer.

The loan is structured as a term loan with one lump sum bullet repayment due May 31, 2019.

Considering the variable nature of the interest rate and specific designation of the loan, an interest rate swap (IRS) contract was executed on July 1, 2016 to hedge the indexed Wibor 3-month rate with the amount and term equal to the loan itself.

Part H—Related party transactions

1. Information about the compensation to BFF executives with strategic responsibilities

Banca Farmafactoring S.p.A.

- Compensation of Directors: for the full year amounts to €1,552 thousand.
- Compensation of the Board of Statutory Auditors: for the full year amounts to €177 thousand.

BFF Directors and managers have invested in BFF Luxembourg S.à r.l.

The following table sets out the number of common and preferred shares, equal to 3.90% of share capital, held by the directors and executives of BFF in BFF Luxembourg S.à r.l. at December 31, 2016.

	number of common and preferred shares	company
Directors and Executives	16,818,126	BFF Luxembourg S.à. r.l.

2. Information about related party transactions

In order to optimize funding of the Group, BFF has entered into intercompany loan contracts with the subsidiaries at conditions applied on standard market terms.

More specifically, the balances of the intercompany positions at December 31, 2016 are the following:

- Farmafactoring España (through Banca Farmafactoring Sucursal en España) for €151 million;
- Magellan S.A. for PLN 355 million;
- Magellan Central Europe for €78 million;
- Magellan Ceska Republic for CZK 45 million.

There is a license agreement between BFF and Farmafactoring España S.A. covering the use, under license, of the software, organizational methods and communication lines of BFF referred to as IT rights, as well as the assistance, maintenance and monitoring of the IT rights. The consideration is the royalty which at December 31, 2016 is estimated at about €395 thousand.

Farmafactoring España purchased Italian healthcare receivables during the year from the parent for about €82 million. These receivables have already been collected at the reporting date for about €67 million, with an outstanding balance of about €14 million.

BFF carries out:

- administrative support services provided to the parent BFF Luxembourg S.à r.l. for the preparation of CRR Group consolidated reporting. The consideration under the service agreement is €10,500 per year;
- audit activities for the subsidiary Farmafactoring España, for €6,400 per year;
- administrative support services for Fondazione Farmafactoring, for consideration of €15 thousand per year.

The Group also has factoring and mandate arrangements for the management and collection of receivables with its shareholder companies, conducted on standard market terms.

Lastly, it should be noted that there are deposit accounts with directors of the Group.

Part I—Share-based payment agreements

A. Qualitative information

1. Description of the share-based payment agreements

On November 27, 2015, the Board of Directors of BFF approved and, on December 21, 2015 then updated, a "Report on proposed amendments to the by-laws", drawn up in accordance with Article 2, Section II, Chapter 1, Title III of Prudential Instructions for Banks. The Report was initially submitted on December 23, 2015, and subsequently in the integrated version on January 19, 2016, to the Bank of Italy, for issue of the authorization pursuant to Article 56 of the Consolidated Law on Banking.

The proposed amendments to the by-laws stem from BFF's intention to grant, through a bonus increase in share capital, an award that is one-time and not linked to performance targets, of special shares to each of the employees of the Group to motivate them, reward their loyalty and strengthen their sense of belonging to the Group, and align their interests with those of the shareholders through a Stock Grant Plan.

On April 6, 2016, BFF received Bank of Italy's authorization, issued pursuant to Article 56 of the Consolidated Law on Banking, regarding the amendments to the by-laws contained in the above Report.

Consequently, on May 18, 2016, both the Ordinary and Extraordinary Shareholders' Meeting of the Bank passed resolutions to approve:

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

The bonus increase in share capital was registered in the Milan Company Register on June 22, 2016 and 6 bonus special shares were issued, as of the date of May 31, 2016, to each employee of the Group with a permanent work contract (including those with a part time contract) who has the following requisites:

(i) an employee against whom there are no disciplinary proceedings pending that may result in the resolution of work relationship, or, alternatively

(ii) an employee against whom there is no sentence at first instance in a legal proceeding connected with work that may result in the resolution of the work relationship or in any case connected with violations of the principles of the Group's Code of Ethics.

The bonus award of the special shares was made by charging the equity reserves with the same accounting value as BFF ordinary shares.

The special shares do not have voting rights and only attribute the holders the right to receive, proportionally in relation to the number of special shares held, a percentage portion of the total profit, as well as any other distribution, other than the distribution of the share premium reserve and the reimbursement of capital to ordinary shareholders.

An automatic mechanism for the conversion of the special shares into ordinary shares is also established, in a ratio of one ordinary share for each special share, in the event of the disposal by the current majority shareholder of its investment, in the event of the listing of BFF's shares on a regulated market and, lastly, in the event of the purchase of the special shares by the ordinary shareholders, should the employee recipients fail to maintain the subjective requisites.

The special shares may not be sold in any case until the end of the third year from the date of the award At the end of the third year, whenever the automatic conditions of conversion have not been satisfied, the employee recipients may transfer the special shares only to another subject having the subjective requisites.

Part I—Share-based payment agreements (Continued)

Lastly, it should be noted that on December 5, 2016, the BFF Extraordinary Shareholders' Meeting approved the stock option plan for employees and members of the corporate boards, in the event of the Bank's listing, which has already been submitted for examination by the Bank of Italy pursuant to paragraph 1.2, Section III, Chapter 2 of the Bank of Italy Circular No. 285.

The option rights relating to the above stock option plan had not yet been awarded as of the date of the approval of the financial statements.

Part I—Share-based payment agreements (Continued)

B. Quantitative information

1. Year-over-year change

	Banking Group			Insurance companies			Other companies			Total 12/31/2016			Total 12/31/2015		
Items/Number of options and exercise price	**Number of options**	**Average prices**	**Average expiration**	**Number of options**	**Average prices**	**Average expiration**	**Number of options**	**Average prices**	**Average expiration**	**Number of options**	**Average prices**	**Average expiration**	**Number of options**	**Average prices**	**Average expiration**
A. Opening balance	**1,700,000**	**77**								**1,700,000**			**1,700,000**	**77**	
B. Increases	**1,074**		X			X			X	1,074		X			X
B.1 New issues	1,074	77								1,074					
B.2 Other changes			X			X			X			X			X
C. Decreases			X			X			X			X			X
C.1 Cancelled			X			X			X			X			X
C.2 Exercised			X			X			X			X			X
C.3 Expired			X			X			X			X			X
C.4 Other changes			X			X			X			X			X
D. Closing balance	**1,701,074**									**1,701,074**			**1,700,000**		
E. Options exercisable at the end of the year			X			X			X			X			X

Part L—Segment reporting

At December 31, 2016, the Group is composed of Banca Farmafactoring S.p.A., the parent company, and the subsidiaries Farmafactoring España and Magellan.

BFF and its subsidiary Farmafactoring España S.A. are specialized in the management and non-recourse factoring of receivables owed to suppliers mainly by the entities of the National Healthcare System and other sectors of the Public Administration in Italy and in Spain.

BFF also operates in Portugal under the freedom to provide services provision.

The two companies provide financial and management support to leading Italian and international companies operating in various sectors (primarily drugs and biomedical) through non-recourse factoring.

The clientele consists mainly of multinational companies in the pharmaceutical and biomedical sectors which generate receivables from their activities with the National Healthcare System and the Public Administration. BFF is currently also diversifying its business into other sectors (telecommunications and utilities).

The following table sets forth the volumes handled, the management accounts outstanding and the receivables purchased for the non-recourse factoring business, broken down by debtor and geographic region, for the year ended December 31, 2016 compared to December 31, 2015, reported by BFF and the subsidiary Farmafactoring España.

	At December 31, 2016			At December 31, 2015		
(in € thousands)	Volumes	Outstanding (management accounts)	Receivables purchased	Volumes	Outstanding (management accounts)	Receivables purchased
Italy	**5,476,782**	**1,838,614**	**2,606,116**	**5,764,216**	**1,797,015**	**2,481,156**
National Healthcare System	**4,472,986**	**877,262**	**1,726,125**	**4,550,826**	**951,243**	**1,512,774**
Public Debtors	**893,701**	**924,691**	**826,393**	**1,102,277**	**824,665**	**939,586**
Other	**110,095**	**36,660**	**53,598**	**111,113**	**21,107**	**28,796**
Spain	**351,266**	**139,457**	**345,554**	**467,170**	**183,434**	**449,590**
National Healthcare System	**262,974**	**117,409**	**257,263**	**412,596**	**142,210**	**395,016**
Public Debtors	**88,291**	**22,048**	**88,291**	**54,574**	**41,224**	**54,574**
Portugal	**51,137**	**39,030**	**51,137**	**55,028**	**28,392**	**55,028**
National Healthcare System	**51,137**	**39,030**	**51,137**	**55,028**	**28,392**	**55,028**
Total	**5,879,185**	**2,017,100**	**3,002,807**	**6,286,414**	**2,008,841**	**2,985,774**

Magellan S.A. is an independent specialized operator and a leader in the market for financial services offered to companies operating in the healthcare sector in Poland.

In the European Union, Magellan also has a significant presence in Slovakia and the Czech Republic.

Magellan's business covers three main sectors:

- financing the working capital of suppliers of the public administration;
- financing present and future receivables;
- financing investments in the public sector and healthcare.

New business contributed by Magellan during the year amounted to PLN 1,830 million (about €420 million at the average exchange rate for the year), with an increase of PLN 1,685 million compared to December 31, 2015.

Part L—Segment reporting (Continued)

The breakdown of new business by geographical region is presented below:

	12/31/2016	12/31/2015
Poland	365	329
Slovakia	41	44
Czech Republic	8	9
Spain	12	16
Total	**426**	**398**

It should be noted that during the previous year, Magellan began expanding into Western Europe, opening a branch in Spain, where activities since the second half of this year are managed directly by the subsidiary FFE.

Additional Information about the breakdown of the clientele by geographic region and sector is reported in the tables in the Notes in Part E.

Other information

Audit fees to the independent auditors or entities in their network

The following table, prepared in accordance with Article 149-duodecies of the CONSOB Issuers Regulation (Resolution No. 11971 of May 14, 1999, and subsequent updates), presents the fees relative to the year 2016 for auditing services and other services rendered by the independent auditors and the companies in their network. Such fees represent the costs incurred and recorded in the statutory financial statements, net of the reimbursement of expenses and deductible VAT and the CONSOB contribution.

	Banca Farmafactoring SpA				Group companies			
	PwC SpA		PwC Network		PwC SpA		PwC Network	
Type of service	Italy	Outside Italy	Italy	Outside Italy	Italy	Outside Italy	Italy	Outside Italy
Audit fees	199			29				83
Attestation services(*)	718							
Tax fees				120				2
Other services(**)			461	1,409				
Total	**917**		**461**	**1,558**				**85**

(*) The amount mainly refers to the attestations issued in respect of prospectus and the issue of bonds.

(**) The amounts mainly refer to the activities connected with the acquisition of the Magellan Group and with due diligence.

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the board of directors of
Bancafarmafactoring S.p.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Banca Farmafactoring Group, which comprise the balance sheet as of 31 December 2015, 2014 and 2013, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and statement of cash flows for the years then ended and the related notes, which include a summary of significant accounting policies and other explanatory notes (the "**Consolidated Financial Statements**").

The Consolidated Financial Statements were prepared exclusively for the purpose of the inclusion in the offering documents concerning the planned admission to listing of the ordinary shares of Banca Farmafactoring SpA on the Mercato Telematico Azionario managed by Borsa Italiana S.p.A. and the related initial public offering.

Directors' responsibility for the consolidated financial statements

The directors of Banca Farmafactoring SpA are responsible for the preparation of the Consolidated Financial Statements that give a true and fair view in compliance with the Italian laws governing the criteria for their preparation.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11, paragraph 3, of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view, in order to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C .F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position of Banca Farmafactoring Group as of 31 December 2015, 2014 and 2013, of the result of its operations and cash flows for the years then ended in compliance with International Financial Reporting Standards as adopted by the European Union.

Milan, April 8, 2016

PricewaterhouseCoopers SpA

Signed by

Giovanni Ferraioli

(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

Banca Farmafactoring S.p.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In thousands of Euro)	At December 31, 2015	2014	2013
Consolidated assets			
10. Cash and cash balances	160	3	1
20. Financial assets held for trading	—	—	5
40. Available-for-sale financial assets	429,438	370,180	82,015
50. Held-to-maturity financial assets	822,859	955,932	—
60. Due from banks	60,523	97,726	325,944
70. Due from customers	1,962,004	1,554,957	1,136,578
120. Property, plant and equipment	12,666	12,693	12,829
130. Intangible assets	2,747	2,053	1,122
Of which Goodwill	—	—	—
140. Tax assets	28,053	31,117	40,083
a) current tax assets	25,113	28,572	37,879
b) deferred tax assets	2,940	2,545	2,204
Of which for purpose of L.214/2011	547	470	509
160. Other assets	3,106	2,106	9,336
Total assets	**3,321,556**	**3,026,767**	**1,607,913**

(In thousands of Euro)	At December 31, 2015	2014	2013
Consolidated liabilities and shareholders' equity			
10. Due to banks	688,081	968,264	804,451
20. Due to customers	1,726,683	1,168,587	173,438
30. Debt securities issued	452,962	468,562	320,000
40. Financial liabilities held for trading	—	46	548
60. Hedging derivatives	—	47	—
80. Tax liabilities	70,583	73,057	47,015
a) current tax liabilities	23,805	30,885	35,796
b) deferred tax liabilities	46,778	42,172	11,219
100. Other liabilities	45,885	32,377	25,370
110. Provision for employee severance indemnities	883	717	705
120. Provisions for risks and charges	5,195	4,316	3,377
a) post-retirement benefit obligations	4,830	3,952	2,672
b) other provisions	365	364	705
140. Revaluation reserves	4,184	4,035	4,219
170. Reserves	127,409	51,481	48,977
190. Issued capital	130,900	130,900	130,900
220. Net profit or loss for the year	68,791	124,378	48,913
Total liabilities and shareholders' equity	**3,321,556**	**3,026,767**	**1,607,913**

Banca Farmafactoring S.p.A.

CONSOLIDATED INCOME STATEMENT

(In thousands of Euro)	Year ended December 31, 2015	2014	2013
10. Interest income and similar revenues	161,946	252,551	154,643
20. Interest expense and similar expenses	(28,898)	(44,240)	(53,644)
30. Net interest margin	**133,048**	**208,311**	**100,999**
40. Fee and commission income	8,389	9,444	10,272
50. Fee and commission expense	(446)	(1,205)	(1,108)
60. Net fees and commissions	**7,943**	**8,239**	**9,164**
80. Gains and losses on financial assets and liabilities held for trading	46	497	1,701
90. Fair value adjustment in hedge accounting	(23)	(7)	—
100. Gains (losses) on disposal and repurchase of:	—		
b) available-for-sale financial assets	872	953	—
120. Operating income	**141,886**	**217,993**	**111,864**
130. Net losses/recoveries on impairment:			
a) receivables	(1,126)	43	(1,136)
b) available-for-sale financial assets	—		—
c) held-to-maturity financial assets	—		—
d) other financial assets	—		—
140. Net profit from financial activities	**140,760**	**218,036**	**110,728**
170. Net profit from financial and insurance activities	**140,760**	**218,036**	**110,728**
180. Administrative costs:			
a) personnel costs	(18,476)	(14,828)	(13,227)
b) other administrative expenses	(27,091)	(21,126)	(17,051)
190. Net provisions for risks and charges	(879)	(1,280)	(733)
200. Impairment/write-backs on property, plant and equipment	(1,115)	(1,053)	(1,217)
210. Impairment/write-backs on intangible assets	(1,023)	(689)	(572)
220. Other net operating income	4,144	7,032	6,609
230. Operating costs	**(44,440)**	**(31,944)**	**(26,191)**
280. Total profit or loss before tax from continuing operations	**96,320**	**186,092**	**84,537**
290. Tax expense (income) related to profit or loss from continuing operations	(27,529)	(61,714)	(35,624)
300. Total profit or loss after tax from continuing operations	**68,791**	**124,378**	**48,913**
320. Net profit or loss of the year	**68,791**	**124,378**	**48,913**
340. Net profit or loss of the year attributable to the parent company	**68,791**	**124,378**	**48,913**
Earnings per share (Euro)	40,47	73,16	28,77
Diluted earnings per share (Euro)	40,47	73,16	28,77

Banca Farmafactoring S.p.A.

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

(In thousands of Euro)		Year ended December 31, 2015	2014	2013
10.	**Net profit or loss of the year**	**68,791**	**124,378**	**48,913**
	Other comprehensive income not reclassified to profit or loss:	**—**		
20.	Property, plant and equipment	—		
30.	Intangible assets	—		—
40.	Defined benefit plans	(121)	2	(1)
50.	Non-current assets classified as held for sale	—		—
60.	Portion of revaluation reserves from investments valued at equity	—		—
	Other comprehensive income after tax that may be reclassified to profit or loss:	**—**		
70.	Hedges of foreign investments	—		—
80.	Exchange differences	—		—
90.	Cash flow hedges	27	(27)	—
100.	Available-for-sale financial assets	243	(159)	397
110.	Non-current assets classified as held for sale	—		—
120.	Valuation reserves from investments accounted for using the equity method	—		—
130.	**Total of other comprehensive income**	**149**	**(184)**	**396**
140.	**Comprehensive income (Item 10+130)**	**68,940**	**124,194**	**49,309**
150.	**Consolidated comprehensive income attributable to minorities**	**—**	**—**	**—**
160.	**Consolidated comprehensive income attributable to the parent company**	**68,940**	**124,194**	**49,309**

Banca Farmafactoring S.p.A.

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT DECEMBER 31, 2015

(In thousands of Euro)	At December 31, 2014	Change in opening balance	At January 1, 2015	Allocation of profit from previous year: Reserves	Allocation of profit from previous year: Dividends and other uses	Shareholders' equity transactions: Changes in reserves	Shareholders' equity transactions: Issue of new shares	Shareholders' equity transactions: Purchases of treasury shares	Shareholders' equity transactions: Distribution of extraordinary dividends	Shareholders' equity transactions: Change in equity instruments	Shareholders' equity transactions: Issue of own shares	Shareholders' equity transactions: Stock options	Shareholders' equity transactions: Changes in shareholdings	Comprehensive income 2015	At December 31, 2015: Total Shareholders' equity	At December 31, 2015: Shareholders' equity Group	At December 31, 2015: Shareholders' equity minorities
Issued capital:				—										—			
—ordinary shares	130,900		130,900	—										—	130,900	130,900	—
—other shares			—	—										—	—	—	—
Share premiums			—	—										—	—	—	
—from profits	53,099		53,099	74,310										—	127,409	127,409	—
—other	(1,618)		(1,618)	1,618										—			—
Revaluation reserves	4,035		4,035											149	4,184	4,184	—
Equity instruments				—													—
Treasury shares	—		—	—										—	—	—	—
Net profit or loss of the year	124,378		124,378	(75,928)	(48,450)									68,791	68,791	68,791	—
Total shareholders' equity	**310,794**	—	**310,794**	—	**(48,450)**	—	—	—	—	—	—	—	—	**68,940**	**331,284**	**331,284**	—
Shareholders' equity minorities				—													

Banca Farmafactoring S.p.A.

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT DECEMBER 31, 2014

				Allocation of profit from previous year		Shareholders' equity transactions									At December 31, 2014		
(In thousands of Euro)	At December 31, 2013	Change in opening balance	At January 1, 2014	Reserves	Dividends and other uses	Changes in reserves	Issue of new shares	Purchases of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Issue of own shares	Stock options	Changes in shareholdings	Comprehensive income 2014	Total Shareholders' equity	Shareholders' equity Group	Shareholders' equity minorities
Issued capital:	—																
—ordinary shares	130,900		130,900												130,900	130,900	
—other shares			—												—	—	
Share premiums			—												—	—	
—from profits	50,595		50,595	2,503											53,099	53,099	
—other	(1,618)		(1,618)												(1,618)	(1,618)	
Revaluation reserves	4,219		4,219											(184)	4,035	4,035	
Equity instruments			—												—	—	
Treasury shares			—												—	—	
Net profit or loss of the year	48,913		48,913	(2,503)	(46,410)									124,378	124,378	124,378	
Total shareholders' equity	**233,009**	—	**233,009**	—	**(46,410)**		—	—	—	—	—	—	—	**124,194**	**310,794**	**310,794**	—
Shareholders' equity minorities																	

Banca Farmafactoring S.p.A.

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT DECEMBER 31, 2013

(In thousands of Euro)	At December 31, 2012	Change in opening balance	At January 1, 2013	Allocation of profit from previous year: Reserves	Allocation of profit from previous year: Dividends and other uses	Shareholders' equity transactions: Changes in reserves	Issue of new shares	Purchases of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Issue of own shares	Stock options	Changes in shareholdings	Comprehensive income 2013	At December 31, 2013: Total Shareholders' equity	Shareholders' equity Group	Shareholders' equity minorities
Issued capital:																—	
—ordinary shares	130,900		130,900	—	—	—	—	—	—	—	—	—	—	—	130,900	130,900	
—other shares	—		—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Share premiums																	
—from profits	47,696		47,696	2,899	—	—	—	—	—	—	—	—	—	—	50,595	50,595	
—other	(1,355)		(1,355)	(263)	—	—	—	—	—	—	—	—	—	—	(1,618)	(1,618)	
Revaluation reserves	3,823		3,823	—	—	—	—	—	—	—	—	—	—	396	4,219	4,219	
Equity instruments	—		—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Treasury shares	—		—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Net profit or loss of the year	56,187		56,187	(2,637)	(53,550)									48,913	48,913	48,913	
Total shareholders' equity	**237,251**	—	**237,251**	—	**(53,550)**	—	—	—	—	—	—	—	—	**49,309**	**233,009**	**233,009**	—
Shareholders' equity minorities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

Banca Farmafactoring S.p.A.

CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands of Euro)	Year ended December 31, 2015	2014	2013
A. OPERATING ACTIVITIES			
Operations	***72,932***	***127,015***	***51,918***
profit or loss for the year (+/−)	68,791	124,378	48,913
capital gains/losses on financial assets/liabilities held for trading and on assets/liabilities designated at fair value through profit and loss (+/−)	—	—	—
capital gains/losses on hedging operations (+/−)		—	—
net losses/recoveries on impairment (+/−)	—	—	—
net write-offs/write-backs on tangible and intangible assets (+/−)	1,126	(43)	1,136
provisions and other incomes/expenses (+/−)	2,136	1,742	1,775
not cashed net premiums (−)	879	938	94
other not collected incomes and expenses from insurance activities	—	—	—
unpaid taxes and tax credits (+/−)	—	—	—
impairment/write-backs on discontinued operations net of tax effects (+/−)	—	—	—
other adjustments (+/−)	—	—	—
profit or loss for the year (+/−)		—	—
capital gains/losses on financial assets/liabilities held for trading and on assets/liabilities designated at fair value through profit and loss (+/−)	—	—	—
Liquidity generated/absorbed by financial assets	***294,848***	***1,418,173***	***181,972***
financial assets held for trading	—	(5)	5
financial assets at fair value	—		—
available-for-sale financial assets	59,015	288,323	81,596
due from banks: at sight	(37,203)	(228,218)	184,963
due from banks: other	—		—
due from customers	408,173	418,336	(104,507)
other assets	(135,137)	939,737	19,915
Liquidity generated/absorbed by financial liabilities	***273,324***	***1,340,103***	***184,610***
due to banks: at sight	(280,184)	163,813	67,451
due to banks: other	—		—
due to customers	558,097	995,150	43,464
debt certificates including bonds	(15,600)	148,562	70,000
Financial liabilities held for trading	(45)	(502)	(1,696)
financial liabilities designated at fair value	—		—
other liabilities	11,056	33,080	5,391
Net liquidity generated/absorbed by operating activities	**51,408**	**48,945**	**54,556**
B. INVESTMENT ACTIVITIES			
Liquidity generated by	**—**	**—**	**—**
sales of equity investments	—		—
collected dividends on equity investments	—		—
sales of financial assets held to maturity	—		—
sales of property, plant and equipment	—		
sales of intangible assets	—		
sales of subsidiaries and divisions	—		—
Liquidity absorbed by	**(2,801)**	**(2,533)**	**(1,007)**
purchases of equity investments	—		—
purchases of financial assets held to maturity	—		—
purchases of property, plant and equipment	(1,084)	(913)	(611)
purchases of intangible assets	(1,717)	(1,620)	(396)
purchases of sales/purchases of subsidiaries and divisions			—
Net liquidity generated/absorbed by investment activities	**(2,801)**	**(2,533)**	**(1,007)**
C. FUNDING ACTIVITIES			
issue/purchase of treasury shares	—		—
issue/purchase of equity instruments	—		—
distribution of dividends and other scopes	(48,450)	(46,410)	(53,550)
Net liquidity generated/absorbed by funding activities	**(48,450)**	**(46,410)**	**(53,550)**
NET LIQUIDITY GENERATED/ABSORBED DURING THE YEAR	157	2	(1)

(In thousands of Euro)	Year ended December 31, 2015	2014	2013
Cash and cash balances at the beginning of the year	3	1	2
Net liquidity generated/absorbed during the year	157	2	(1)
Cash and cash balances: effect of exchange rate variations			
Cash and cash balances at the end of the year	**160**	**3**	**1**

Banca Farmafactoring S.p.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at and for the years ended December 31, 2015, 2014 and 2013

Foreword

Banca Farmafactoring S.p.A (hereinafter "**BFF**", or the "**Company**") is a company with registered office at 5 Via Domenichino, in Milan.

BFF is a bank specialized in the management and sale and the non-recourse factoring of receivables owed to suppliers mainly by national healthcare service entities and other sectors of the Public Administration in Italy and Spain and, starting in 2014, non-recourse factoring transactions in Portugal. With regard to these activities, BFF and its subsidiaries (the "**Group**") constitute one of the top operators in the Italian, Spanish and Portuguese markets.

BFF's consolidated financial statements for the years ended December 31, 2015, 2014 and 2013 (the "**Consolidated Financial Statements**") were prepared exclusively for the purpose of the inclusion in the Registration Document concerning the planned admission to listing of the BFF ordinary shares on the Mercato Telematico Azionario managed by Borsa Italiana S.p.A. and the related initial public offering, as well as in the offering circular for a private placement reserved for qualified investors, including institutional investors in the United States of America pursuant to Rule 144A of the United States Securities Act of 1933, as amended.

Specifically, the Consolidated Financial Statements were prepared based on the following documents:

1) the Group's consolidated financial statements for the 2015 reporting year, approved by the Board of Directors on February 26, 2016, which were audited by the Independent Auditors, who issued a report without any qualifications on March 11, 2016;

2) the Group's consolidated financial statements for the 2014 reporting year, approved by the Board of Directors on February 23, 2015, which were audited by the Independent Auditors, who issued a report without any qualifications on February 27, 2015;

3) the Group's consolidated financial statements for the 2013 reporting year, approved by the Board of Directors on April 29, 2014, which were audited on a voluntary basis by the Independent Auditors, who issued a report without any qualifications on May 19, 2014.

The Consolidated Financial Statements differ from the consolidated financial statements mentioned above because they take into account those EU IFRS standards that are mandatorily applicable by companies (i) that have securities listed and traded on regulated markets, or (ii) have begun the process of listing their securities for trading on regulated markets (IAS 33 in particular), and to ensure the consistency of the disclosures provided into three years period reported.

The Consolidated Financial Statements were approved by the Group's Board of Directors on March 31, 2016 and audited by the Independent Auditors, who issued their report on April 8, 2016.

Equity invetsments

The following table provides a breakdown of BFF's equity participation at December 31, 2015.

Equity participation at December 31, 2015

Shareholder	Investment %
BFF Luxembourg	94,255%
Bracco	3,276%
Mediolanum Farmaceutici	1,207%
L. Molteni & C. dei F. lli Alitti	0,850%
Unione Fiduciaria	0,412%

On March 31, 2015, Farma Holding S.à r.l., the Company's majority shareholder, announced that it had entered into an agreement with BFF Luxembourg S.à r.l., a subsidiary of the Centerbridge Partners Europe L.P. fund for the purchase of an equity stake in Banca Farmafactoring.

On November 4, 2015, Farma Holding S.à r.l., the Company's majority shareholders, and other minority shareholders transferred to BFF Luxembourg S.à r.l. title to 1,602,341 shares, equal to 94.26% of the Bank's share capital.

Notes to the Consolidated Financial Statements

The Notes to the Consolidated Financial Statements are comprised of the following parts:

1) Part A—Accounting Policies;
2) Part B—Information about the Consolidated Statement of Financial Position;
3) Part C—Information about the Consolidated Income Statement;
4) Part D—Consolidated Comprehensive Income;
5) Part E—Information About Risks and Related Hedging Policies;
6) Part F—Information about Consolidated Equity
7) Part G—Business Combinations Involving Companies or Business Activities;
8) Part H—Related-party Transactions;
9) Part L—Segment Reporting.

PART A—OVERVIEW OF ACCOUNTING POLICIES

The main accounting principles and valuation criteria adopted to prepare and draw up the Consolidated Financial Statements are reviewed below. These Principles and criteria were applied consistently for all of the years presented in this document, except for:

- the method for estimating the recoverability of late-payment interest, as explained below;
- the adoption of IAS 19 revised as of January 1, 2013, which, however, had a negligible effect.

A.1—GENERAL REMARKS

Section 1—Statement of compliance with the international accounting standards

The Consolidated Financial Statements were prepared in accordance with the IFRS international accounting standards, meaning by this expression all "International Financial Reporting Standards," all "International Accounting Standards" (IAS), all interpretations of the "International Financial Reporting Interpretations Committee" (IFRIC), previously called "Standing Interpretations Committee" (SIC), that, on the closing date of each of the reporting years of the Consolidated Financial Statements had been adopted by the European Union in accordance with the procedure set forth in EC Regulation No. 1606/2002 of the European Parliament and Council of July 19, 2002.

Section 2—General preparation principles

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

The Consolidated Financial Statements were prepared in accordance with the going concern assumption, as required by the IAS 1 accounting standard, as there were no financial, operational or other indicators providing evidence of problems regarding the Group's ability to meet its obligations in the foreseeable future and, more specifically, within the 12 months following the end of each reporting year.

The valuation criteria adopted are therefore consistent with the abovementioned assumption and comply with the accrual principle and the principles concerning the materiality and significance of accounting information and the prevalence of economic substance over legal form.

The Consolidated Financial Statements include the following:

- a consolidated statement of financial position;
- a consolidated income statement;
- a statement of consolidated comprehensive income;
- a statement of changes in consolidated shareholders equity;
- a consolidated statement of cash flow, prepared showing the cash flow from operating activities in accordance with the "indirect method"; and
- the notes to the Consolidated Financial Statements.

In accordance with the provisions of Article 5, Section 2, of Legislative Decree No. 38 of February 28, 2005, the Consolidated Financial Statements are denominated in euros, as the euro is the currency of the economic environment within which the Group conducts the majority of its operations. All amounts included in this document are in thousands of euros, unless otherwise stated.

Merger transaction

In accordance with the prior authorization of the Bank of Italy, received on July 18, 2014, and in implementation of the resolutions adopted by the Shareholders' Meeting on September 9, 2014, the merger by incorporation of FFH into BFF was finalized with the recording of the deed of merger in the

PART A—OVERVIEW OF ACCOUNTING POLICIES (Continued)

Company Register, most recently on October 13, 2014. See Part G—"Business Combinations Involving Companies or Business Activities" later in these Notes to the Financial Statements.

Principles and criteria for the preparation of Consolidated Financial Statements.

As required by the provisions of IAS 1 (Paragraphs from 108 to 115) and the instructions provided by the Bank of Italy with Circular No. 262 of December 22, 2005, as updated, the main valuation criteria are described below.

New IFRS accounting principles applicable to financial statements closed at December 31, 2015

- *Amendment to IAS 19, "Employee Benefits," regarding defined benefits plans.*

  This amendment, endorsed with Reg. 2015/29, is not mandatory for financial statements closed at December 31, 2015. The purpose of this amendment is to simplify the accounting of contributions to pension plans that are independent of the number of years of service and are contributed by third parties or employees.

- Annual Improvements 2012

  This amendment, endorsed with Reg. 2015/28, is not mandatory for financial statements closed at December 31, 2015 but is applicable voluntarily on a retroactive basis. The improvements include amendments to the following accounting standards:

  - IFRS 2, "Share-based Payments": Appendix A clarifies the definition of "vesting condition" as "a condition that determines whether the entity is receiving the services that convey to the counterparty the right to receive cash, other assets or equity instruments of the entity under a share-based payment arrangement" and introduces the definitions of "service conditions" and "performance conditions";

  - IFRS 3, "Business Combination" was amended to clarify that the obligation to pay contingent consideration meets the definition of a financial instrument and should be classified as a financial liability or as a component of net equity in accordance with the indications provided in IAS 32;

  - IFRS 8, "Operating Segments" introduces the requirement to disclose the judgments made by management in applying aggregation criteria to operating segments and calls for a description of the operating segments and the economic indicators that conditioned the judgments that led to the conclusion that the aggregate segments presented similar economic characteristics. In addition, it requires a reconciliation of the assets of the operating segments to the entity's total assets represented in the statement of financial position only if the assets of the operating segments are reported periodically to the highest decision-making level;

  - IFRS 13, "Fair Value Measurement": the Basis for Conclusions of IFRS 13 was amended to clarify that short-term receivables and payables can be measured at their invoice amounts when the impact of discounting is immaterial;

  - IAS 16, "Property, plant and equipment" and IAS 38, "Intangible Assets": these standards were amended to clarify that the historical cost and accumulated depreciation or amortization of an item of property plant and equipment or of an intangible assets must be revalued when the entity adopts the revalued cost criterion;

  - IAS 24, "Related Party Disclosures": This amendment sets forth the disclosure that must be provided when there is a third-party entity that provides services regarding the management of employees of the reporting entity who perform strategic functions

PART A—OVERVIEW OF ACCOUNTING POLICIES (Continued)

- Annual Improvements 2013

  This amendment, endorsed with Reg. 1361/2014, contains amendments to the following accounting standards:

  - IFRS 1, "First-time Adoption of International Financial Reporting Standards": the Basis for Conclusions of RS 1 was amended to clarify that when a new version of a standard is not yet mandatory applicable but is available for early adoption, a first-time adopter can use either the old or the new version, provided that the same standard is applied throughout the periods presented;
  - IFRS 13, "Fair Value Measurement" clarifies that the provision set forth in IFRS 13, pursuant to which the fair value of a group of financial assets and liabilities can be measured on a net basis, applies to all contracts falling within the scope of IAS 39 (or IFRS 9), whether or not they meet the definition of financial assets and liabilities provided in IAS 32;

- IFRIC 21, "Levies"

  This interpretation, endorsed with Reg. 634/2014, went into effect for reporting years beginning on or after June 17, 2014.

  This document addresses the issue of payments made to government entities (levies), other income taxes and fines/penalties, for which an entity does not receive specific goods and services. The purpose of this interpretation is to provide guidance for the appropriate accounting treatment of liabilities for levies and identifies the "obligating event" that triggers the recognition of the liability pursuant to IAS 37.

New accounting principles or new interpretations issued, in effect as of January 1, 2016

- Amendments to IAS 16, "Property, plant and equipment" and IAS 38,"Intangible assets", on depreciation and amortization

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

- Amendment to IAS 27, "Equity Method in Separate Financial Statements"

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

- Annual improvements 2012-2014

  The 2012-2014 improvements cycle contains amendments to the following standards:

  - IFRS 7, "Service contracts": if an entity transfers a financial asset to another party and the conditions of IAS 39 for the derecognition of the asset can be met, the amendment to IFRS 7 requires that a disclosure be provided about any residual involvement that the entity may still have with regard to the transferred asset. More specifically, the amendment provides guidance as to the meaning of "residual involvement" and adds a specific guidance to help management determine whether or not the terms of a service agreement concerning the asset give rise to a residual involvement.
  - IAS 19, "Employee Benefits": this standard requires that the discount rate applied to determine the present value of obligations for post-unemployment benefits be determined based on the market yields of high-quality corporate bonds and that in countries that lack a deep market for such securities the market yields of the securities of public entities should be used;

- Amendment to IAS 1, "Presentation of financial statements" on the disclosure initiative

PART A—OVERVIEW OF ACCOUNTING POLICIES (Continued)

This amendment clarifies the guidance provided in IAS 1 regarding materiality, aggregation of items, presentation of subtotals, structure of the financial statements and disclosures about accounting policies.

This amendment also modifies the additional disclosures required for this section concerning the other components of comprehensive income.

Lastly, it introduces some new requirements regarding general disclosures, such as, for example, a systematic presentation of the accompanying notes and the presentation of accounting principles.

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

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

Section 3—Scope and methods of consolidation

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

Subsidiaries

Subsidiaries are companies controlled by the Group. The Group controls a company when it is exposed to the variable returns generated by the company and has the ability to affect those returns through its power over the company. Generally, control is deemed to exist when the Company holds, directly or indirectly, more than half of the voting rights, taking also into account contingent exercisable or convertible voting rights.

Subsidiaries also include special purpose entities for which the Group is actually exposed to the majority of the risks and rewards deriving from their activities or those over which it exercises control. The existence of an equity investment in these special purpose entities is not relevant for this purpose.

The financial statements and accompanying notes of companies consolidated line-by-line are prepared in accordance with the IAS/IFRSs for inclusion in the consolidated financial statements.

All subsidiaries are consolidated line-by-line from the date when control is transferred to the Group. Conversely, they are excluded from the scope of consolidation when such control ceases.

The principles applied in line-by-line consolidation are the following:

- assets, liabilities, revenues and expenses of the entities that are fully consolidated are consolidated on a line-by-line basis, attributing to non-controlling interests, if applicable, their share of net equity and profit (loss) for the year, which are disclosed separately in equity and in the consolidated income statement;
- significant gains and losses, including the related tax effects, arising from transactions between companies consolidated line-by-line and unrealized with third parties are eliminated, except for the losses that are not eliminated when the transaction provides evidence that the transferred asset is impaired. Reciprocal receivables and payables, revenues and expenses as well as financial income and expenses are also eliminated if material.

PART A—OVERVIEW OF ACCOUNTING POLICIES (Continued)

1. Investments in subsidiaries under exclusive control

Name of the subsidiary	Type of relationship	Investor	Investment %	Voting rights %	Type of relationship
A. Companies					
A.1 Consolidated					
1. Farmafactoring España S.A.	Madrid C/ Luchana 23	1	BFF	100%	100%
2. Mediona	Warsaw- Plac Marszalka Jozefa 1	1	BFF	100%	100%
3. Farmafactoring SPV I S.r.l.	Milan Via Statuto 10	4	BFF	0%	0%
A.2 Companies consolidated on a proportional basis					

Relation type 1 = having the majority of voting rights at ordinary shareholders' meetings

Relation type 4 = other forms of control

Section 4—Subsequent events after December 31, 2015

On January 8, 2016, Banca Farmafactoring, announced a tender offer for 100% of the shares of Magellan S.A., a Polish company listed on the Warsaw Stock Exchange.

Magellan is a leader in the market for financial services in the healthcare sector in Poland and it operates also in the Czech Republic, Slovakia and Spain.

The tender offer is conditional on Banca Farmafactoring receiving the approval of the Bank of Italy and the relevant Polish antitrust authority.

On February 16, 2016, Lorenzo Pozza, a member of the Board Statutory Auditors, resigned from his post. He will be replaced by Patrizia Paleologo Oriundi, in her capacity as the most senior Alternate, until a new Statutory Auditor can be elected by the Shareholders' Meeting.

No other facts or events that would require a restatement of the results in the financial statements at December 31, 2015 occurred since the close of the reporting year.

Section 5—Other issues

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

In accordance with the IFRSs, the development of estimates by management is a prerequisite for the preparation of the Consolidated Financial Statements. This process involves the use of available information and the adoption of subjective judgments, also based on historical experience, in order to formulate reasonable assumptions for the recognition of operating events. These estimates and assumptions may vary from one year to the next and, consequently, the possibility cannot be excluded that, in subsequent years, the actual results reported in the financial statements may be significantly different, owing to changes in the subjective judgments utilized.

Estimates and assumptions are reviewed on a regular basis. Any changes resulting from such reviews are recognized in the period in which the review is carried out, provided the change refers only to that period. If the revisions refer both to current and future periods, the change is recognized both in the current and future periods accordingly. The risk of uncertainty in estimates is essentially inherent in the measurement of:

- the degree of recoverability and estimated collection times for late-payment interest on receivables purchased on a non-recourse basis, to which the Bank is entitled, based on an analysis of historical company data;
- impairment losses on receivables and other financial assets in general

PART A—OVERVIEW OF ACCOUNTING POLICIES (Continued)

- the fair value of financial instruments used for financial statement disclosure purposes;
- the fair value of financial instruments not traded on active markets determined with valuation models;
- any impairment of equity investments;
- employee benefit provisions based on actuarial assumptions and provisions for risks and charges;
- the recoverability of deferred tax assets.

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

Independent Audit

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

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

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

A.2.1 Financial assets held for trading

Recognition criteria

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

Classification criteria

Financial assets held for trading include financial instruments executed to hedge interest rate risk.

These transactions hedge fluctuations in market interest rates as against the fixed rate implicit in non-recourse fees and commissions.

Financial derivatives are recognized as assets/liabilities held for trading in accordance with the provisions of IAS 39, even though at the operational level they are treated as instruments hedging the interest rate risk entailed by purchase of non-recourse receivables.

Measurement criteria

Financial assets held for trading are adjusted to the corresponding fair value.

If the fair value of a financial asset becomes negative, it is recognized as a financial liability.

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

PART A—OVERVIEW OF ACCOUNTING POLICIES (Continued)

Derecognition criteria

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

A.2.2 Available-for-sale financial assets

Recognition criteria

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

Classification criteria

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity financial assets or financial assets measured at fair value. These assets are held for an indefinite period and can fulfill the need to access liquidity or respond to fluctuations in interest rates, exchange rates or prices.

Money market securities, other debt instruments (including the host contract of hybrid instruments after the bifurcation of the embedded derivative) and equity securities can be classified as available-for-sale financial investments; shares held as minority investments that do not constitute controlling interests, joint control or associate interests can also be included in this category.

The main components of the instruments classified in the available-for-sale category include government securities and the investment in Nomisma S.p.A., since this company is not subject to "significant influence."

Measurement criteria

Subsequently, these assets are measured at fair value, with the interest recognized at amortized cost in the income statement. Gains and losses arising from changes in fair value are recognized in equity under item 140. "Revaluation reserves"—except for impairment losses and exchange rate gains or losses on monetary items (debt securities), which are recognized under item 130.b) "Net losses on/recoveries of impairment of available-for-sale financial assets" and item 80. "Gains and losses on trading," respectively—until the financial asset is sold, at which time the cumulative gains and losses are recognized in the income statement under item 100. b) "Gains (Losses) on disposal and repurchase of available-for-sale financial assets." Fair value changes recognized under item 140. "Revaluation reserves" are also reported in the statement of comprehensive income.

Equity instruments (shares) not traded in an active market the fair value of which cannot be determined reliably due to the lack or unreliability of the information needed for fair value measurement are measured at cost, which corresponds to their last reliably measured fair value. The investment in Nomisma S.p.A. is accounted for at cost and tested for impairment.

If there is objective evidence of an impairment of an available-for-sale financial asset, the cumulative loss that was recognized directly in the equity under item 140. "Revaluation reserves" is transferred to the income statement under item 130. b) "Net losses on/recoveries of impairment of available-for-sale financial assets." For debt instruments, any circumstances indicating that the borrower or issuer is experiencing financial difficulties, such as to prejudice the collection of the principal or interest, constitute evidence of an impairment loss. The amount transferred to the income statement is equal to the difference between the asset's carrying amount (value at initial recognition net of any previous impairment losses already recognized in the income statement) and its current fair value.

PART A—OVERVIEW OF ACCOUNTING POLICIES (Continued)

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively correlated with an event such as an improvement in the debtor's creditworthiness occurring in a period following the period when the impairment loss was recognized in the income statement, the impairment loss is reversed and the amount of the reversal is recognized in the same income statement item.

The reinstatement cannot result in a carrying amount that exceeds what the amortized cost would have been had the impairment loss not been recognized.

Derecognition criteria

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

A.2.3 Held-to-maturity financial assets

Recognition criteria

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

Classification criteria

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

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

Measurement criteria

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

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

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

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

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

PART A—OVERVIEW OF ACCOUNTING POLICIES (Continued)

Derecognition criteria

Held-to-maturity financial assets are derecognized when the contractual rights expire and when, following a disposal, substantially all of the risks and benefits relating to the financial asset are transferred.

If, during the year, held-to-maturity investments representing a material amount are sold or reclassified before maturity, the remaining held-to-maturity financial assets shall be reclassified as available-for-sale and no financial assets shall be classified as held-to-maturity investments for the two following years, unless the sales or reclassifications:

- are so close to the financial asset's maturity or call date that changes in the market interest rate would not have a material impact on the financial asset's fair value;
- occur after substantially all of the financial asset's original principal has been collected through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the reporting entity's control, is nonrecurring and could not have been reasonably anticipated.

A.2.4 Receivables

Recognition criteria

Receivables are initially recognized at fair value, which usually corresponds to the consideration paid including transaction costs and income directly attributable to the acquisition or provision of the financial asset, even if not yet settled.

Non-recourse receivables:

a) purchased on a non-recourse basis, with the transfer of substantially all risks and benefits, are initially recognized at fair value, represented by the face value of the receivable net of fees and commissions charged to the assignor;

b) purchased for amounts below face value are recognized for the amount actually paid at the time of purchase.

Classification criteria

Receivables are non-derivative financial assets due by customers and banks, with fixed or determinable payments that are not traded in an active market. Receivables are recognized on the date of signing the contract, which normally coincides with the date of disbursement to the counterparty.

All purchases of non-recourse receivables refer to factoring transactions executed pursuant to Law No 52/91.

The amounts due by banks mainly refer to current account transactions generated by liquidity from amounts collected in the closing days of the year, pending clearance, relating both to "receivables management" and "management of receivables purchased a non-recourse basis."

Receivables due by customers are primarily comprised of receivables from debtors relating to factoring activities and late-payment interest, computed on receivables purchased a non-recourse basis, determined in accordance with existing laws (Legislative Decree No. 231/2002 "Implementation of Directive No. 2000/35/EC on combating late payments in commercial transactions").

Measurement criteria of receivables purchased a non-recourse basis

Subsequent to initial recognition, receivables purchased a non-recourse basis are measured at amortized cost determined based on the present value of estimated future cash flows.

PART A—OVERVIEW OF ACCOUNTING POLICIES (Continued)

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

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

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

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

The collective assessment of the "Probability of Default" (PD) was performed by assigning to the debtors (ASLs/AOs) a rating corresponding to the credit rating assigned by the major rating agencies to the particular Region to which the debtors belong.

With regard to receivables from central administrations of the Italian State, the rating assigned to the Italian State was used.

To determine the "Loss Given Default" (LGD), the Group used the value recommended in the "Basel Accord Framework" for non-collateralized receivables owed by sovereign states, companies and banks, equal to 45% of the "Probability of Default" (PD) found.

As required by IAS 39, and for the purposes of an analytical evaluation, an assessment of the financial assets classified under receivables was carried out to identify any objective impairment of individual positions. Such "non-performing" receivables, which were assigned an impaired, doubtful or restructured status in accordance with Bank of Italy existing regulations, consistent with IAS standards currently in effect, are measured at their estimated realizable value by recognizing any impairment losses determined on an individual basis, equal to the difference between the carrying amount of the receivable at the time of measurement (amortized cost) and the present value of estimated future cash flows, calculated by applying the original effective interest rate. The estimated future cash flows take into account:

- estimated recovery time;
- estimated realizable value of any guarantees;
- costs that it is believed will be incurred to recover the receivable;
- any reinstatements.

Cash flows from receivables that are expected to be recovered over the short term (up to 12 months—short-term receivables) are not discounted to present value. A receivable that was written down is reinstated to its original carrying amount when the reasons for the impairment no longer exist. Receivables that originate from purchases on a non-recourse basis are measured at "amortized cost," determined based on the present value of estimated cash flows, including both principal and late-payment interest, accrued from the receivable's due date.

Measurement of late-payment interest

Pursuant to IAS 18, interest income should be recognized in the income statement only if it is probable that positive cash flows will be generated for the entity and their amount can be measured reliably.

Until December 31, 2013, the Group, lacking reliable databases regarding recoverability amounts and timing, did not recognize accrued late-payment interest (a statutory right) on its portfolio of receivables not yet invoiced to the debtors and completely wrote off receivables for late-payment interest invoiced and not yet collected through a special provision recorded as a deduction from the asset. When the

PART A—OVERVIEW OF ACCOUNTING POLICIES (Continued)

late-payment interest was actually collected, this write-off was reversed and the late-payment interest was credited to the income statement based on the percentage of recovery actually realized.

Beginning in 2014, the Group acquired analysis tools that enabled it to obtain a time series of data such as to permit the computation of a reliable estimate of the recoverable amount of late-payment interest and the estimated collection time. Accordingly, beginning with the financial statements for the year ended December 31, 2014, the Group deemed it probable that a portion of the receivables for late-payment interest will be collected to the extent determined by the time series analysis relating to the amounts and the collection time.

For the purpose of computing the amortized cost, including late-payment interest recognized on an accrual basis, the Group updated the time series of data concerning the collection percentages and time of collection of late-payment interest in 2015. Upon completion of the updating process, the recovery percentage of 40% for late-payment interest and the recovery time of 1,800 days were confirmed.

In order to include the estimates of the late-payment interest deemed recoverable in the value of receivables, a change was made to the amortized cost computation model, which now includes, besides the cash flows relating to the principal amount of the receivables, the cash flows relating to the late-payment interest deemed recoverable and the related estimates of collection times.

The change in the method of estimating late-payment interest led to the recognition, in 2014, of the effects of such change, both on the receivables recognized in 2014 and the receivables recorded in previous years. This resulted in the recognition of very significant nonrecurring income in the income statement. In future years, the income statement will only include the recognition of late-payment interest on an accrual basis for each individual reporting year.

Since this is an estimation process, although structured and reliable, there is a risk that the percentages of future collection of late-payment interest will not match estimated percentages or that in future years, after updating the time series, the estimate of future expected cash flows will require modification and, as a result, the effects of such changes will be recorded in the income statement for the year also for receivables recognized in prior years.

Derecognition criteria

Receivables are derecognized when they are considered uncollectible.

Receivables sold are derecognized only if the sale transferred all of the risks and benefit relating to such receivables.

On the other hand, if the risks and benefits are retained, the receivables sold will continue to be recorded on the asset side of the financial statements until, legally, title to the receivables is effectively transferred.

A.2.6 Hedging transactions

Recognition criteria

Financial derivative designated as hedges are initially recognized at their fair value.

Classification criteria

Hedging transactions are aimed at reducing potential losses attributable to specific types of risks.

The possible types of hedges are as follows:

- fair value hedges, which hedge the exposure to changes in the fair value of financial statement items;
- cash flow hedges, which hedge of the exposure to fluctuations in future cash flows attributable to specific financials statement items.

PART A—OVERVIEW OF ACCOUNTING POLICIES (Continued)

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

The Group uses interest rate swaps (IRS) as instruments to hedge the interest rate charged on its funding.

Measurement criteria

Derivative hedging instruments are measured subsequently at fair value.

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and the hedged item. Consequently, the Group verifies the hedging instrument's effectiveness, both at inception and during its life, in offsetting the exposure to changes in the hedged item's fair value. A hedge is considered effective if, both at inception and during its life, the changes in the hedged item's fair value or cash flows are offset by the changes in the hedging derivative's fair value.

Consequently, the hedge's effectiveness is assessed by a comparison of the above changes, taking into account the objective pursued by the entity when the hedge was put into place. It is effective (within a range of 80-125%) when the estimated and effective changes in the fair value or cash flows of the hedging instrument offset almost entirely the changes in the hedged item, for the element of risk hedged. The hedge's effectiveness is assessed each year at the closing of the annual financial statements or the interim financial reports using:

- prospective tests, which justify the application of hedge accounting, since they confirm the hedge's expected effectiveness;
- retrospective tests, which indicate the degree of effectiveness of the hedge achieved in the period to which they refer. In other words, they measure to what extent actual results diverged from those of a perfect hedge.

Hedge accounting is discontinued in the following cases: a) the hedging relationship ceases or is no longer highly effective; b) the hedged item is sold or is repaid; c) early revocation of the designation; d) the hedging instrument expires or is sold, terminated or exercised.

Gains and losses arising from fair value changes are accounted for differently depending on the type of hedge:

- fair value hedge: changes in the fair value of the hedged item attributable exclusively to the hedged risk are recognized in profit or loss, the same as the fair value change of the derivative; any difference, which represents the partial ineffectiveness of the hedge, consequently corresponds to the net gain or loss;
- cash flow hedge: changes in the fair value of the derivative are recognized in equity, for the effective portion of the hedge, and are recognized in profit or loss only when, with regard to the hedged item, there is a fluctuation in the cash flows that needs to be offset or the hedge is ineffective.

The ineffectiveness of the hedge is represented by the difference between the change in the fair value of the hedging instrument and the change in the fair value of the hedged item, both represented in the income statement.

PART A—OVERVIEW OF ACCOUNTING POLICIES (Continued)

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

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

Derecognition criteria

The Group ceases to consider transactions as hedging relationships and, consequently, to account for them as such, if the derivative designated as a hedge is no longer effective.

Furthermore, the hedging financial assets and liabilities are eliminated when there are no longer any contractual rights (e.g., expiration of the contract, early closing exercised according to the contractual clauses—unwinding) to receive cash flows from the hedged financial instruments, assets/liabilities and/or the derivative designated as a hedge or when the financial assets/liabilities are sold thus substantially transferring all the risks and benefits connected thereto.

A.2.8 Property, plant and equipment

Recognition criteria

Property, plant and equipment is recognized initially at cost, including all directly attributable costs to bring the asset into use (transaction costs, professional fees, direct transportation costs incurred to bring the asset to the assigned location, installation costs, dismantling costs).

Costs incurred subsequently are added to the asset's carrying amount or recognized as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be reliably measured. Other expenses incurred subsequently (e.g., ordinary maintenance costs) are recognized in the year incurred in the income statement under item 180. b) "Other administrative expenses," if they refer to assets used in the Group's business activities.

Classification criteria

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

These asset, which are held for use by the Group, are deemed to be available for use for more than one period.

Valuation criteria

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

PART A—OVERVIEW OF ACCOUNTING POLICIES (Continued)

Such assets are depreciated on a straight-line basis over their estimated useful lives, estimated as follows:

buildings:	maximum 34 years;
furniture:	maximum 9 years;
plant:	maximum 14 years;
machinery:	maximum 3 years;
other	maximum 11 years

Land and buildings are treated separately for accounting purposes, even if purchased together. Land is not depreciated since, as a rule, it has an indefinite useful life.

The estimated useful life of property, plant and equipment is reviewed at the end of each reporting period taking into account the conditions of use of the assets, maintenance conditions, expected obsolescence etc. and, if expectations differ from previous estimates, the depreciation expense for the current and subsequent years is adjusted.

At the date of IFRS first-time adoption (January 1, 2005), the Group-owned buildings used by the Group in its business activities (Milan and Rome) were measured at fair value, which became the new carrying amount of the assets as of that date.

If there is objective evidence that an individual asset has been impaired, the asset's carrying amount is compared with its recoverable amount, equal to the higher of its fair value, less costs to sell, and its value in use, i.e., the present value of future cash flows expected to originate from the asset. Any adjustments to the value of the asset are recognized in the income statement under item 200. "Impairment/write-backs on property, plant and equipment."

If the value of a previously impaired asset is reinstated, the new carrying amount cannot exceed the net carrying amount that would have been attributed to the asset if no impairment loss been recognized in prior years.

Derecognition criteria

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

A.2.9 Intangible assets

Recognition criteria

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

Classification criteria

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

Intangible assets consist mainly of software.

PART A—OVERVIEW OF ACCOUNTING POLICIES (Continued)

Measurement criteria

Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful lives, usually as follows:

Software:	maximum 4 years;
Other intangible assets:	maximum 6 years.

If there is objective evidence that an individual asset has been impaired, the asset's carrying amount is compared with its recoverable amount, equal to the higher of its fair value, less costs to sell, and its value in use, i.e., the present value of future cash flows expected to originate from the asset. Any adjustments to the value of the asset are recognized in the income statement under item 210. "Impairment/write-backs on intangible assets."

If the value of a previously impaired asset is reinstated, the new carrying amount cannot exceed the net carrying amount that would have been attributed to the asset if no impairment loss been recognized in prior years.

Derecognition criteria

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

A.2.11 Current and deferred taxes

Recognition and measurement criteria

Income taxes are computed in accordance with enacted tax legislation.

The tax charge consists of the total amount of current and deferred income taxes included in arriving at the result for the period.

Current income taxes correspond to the amount of income taxes due on the taxable income for the year.

Deferred tax liabilities correspond to the amount of income taxes due in future years on taxable temporary differences. Deferred tax assets correspond to the amount of income taxes recoverable in future years and refer to deductible temporary differences.

The tax amount of an asset or a liability is the value attributed to that asset or liability according to enacted tax legislation.

A deferred tax liability is recognized on all taxable temporary differences in accordance with IAS 12.

A deferred tax asset is recognized on all deductible temporary differences, in accordance with IAS 12, only to the extent that it is probable that there will be future taxable income against which the deductible temporary difference can be offset.

Deferred tax assets and liabilities are calculated based on enacted tax rates in the year in which the asset will be recovered or the liability will be extinguished.

Current and deferred taxes are recognized in the income statement.

PART A—OVERVIEW OF ACCOUNTING POLICIES (Continued)

A.2.12 Provisions for risks and charges

Recognition and measurement criteria

Provisions for risks and charges cover costs and expenses of a determinate nature, the existence of which is certain or probable, which, at the end of the reporting period are uncertain as to amount or date when they will arise.

Accruals to the provisions for risks and charges are recognized only when:

- there is a present obligation as a result of a past event;
- upon its manifestation, the obligation is onerous;
- the amount of the obligation can be estimated reliably.

As required by IAS 19, the provisions for risks and charges include the measurement of post- employment benefit obligations.

The measurement of such obligations in the statement of financial position is made, based on actuarial calculations when necessary, by determining the charge at the measurement date based on demographic and financial assumptions.

Derecognition criteria

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

A.2.13 Payables and securities issued

Recognition criteria

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

Classification criteria

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

Measurement criteria

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

Securities issued are measured at amortized cost using the effective interest method.

Derecognition criteria

Financial liabilities are derecognized when the obligation specified in the contract is extinguished or following a substantial change in the contractual terms of the liability.

The derecognition of securities issued occurs also in the event of the repurchase of securities previously issued, even if they are destined for subsequent resale. The gains and losses on the recognition of the repurchase as an extinguishment are recognized in the income statement when the repurchase price of the bonds is higher or lower than their carrying amount. Subsequent disposals of own bonds on the market is treated as the placement of new debt.

PART A—OVERVIEW OF ACCOUNTING POLICIES (Continued)

A.2.18 Other information

Employee severance indemnities

Recognition and measurement criteria

As a result of the new legislative framework introduced by Law No. 296 of 2006, the computation of employee severance benefits vested up to December 31, 2006 (which remains with the Company) is computed by estimating the remaining length of the employment relationship, for individual persons or homogeneous groups, based on demographic assumptions:

- by projecting the vested employee severance benefits, using demographic assumptions to estimate the time of termination of the employment relationship;
- by discounting to present value, at the measurement date, the amount of the vested benefits at December 31, 2006 based on financial assumptions.

IAS 19 revised no longer allows the deferral of actuarial gains and losses under the corridor method, now requiring their immediate recognition in comprehensive income for the year to which they are attributable.

Because the employee severance benefits that will vest starting on January 1, 2007 must be transferred to the Italian social security administration (INPS) or to supplemental pension funds, they qualify as a "defined contribution plan" since the employer's obligation ceases once payment is made and the contribution is recorded in the income statement on the accrual basis.

Revenue recognition criterion

The general criterion for the recognition of revenue components is the accrual basis. More specifically:

- Interest income on receivables from customers is recognized at the effective return; similarly, fees and commissions charged to the assignor for the purchase of non-recourse receivables are recognized as transaction revenues and are therefore part of the effective return of the receivable.
- Until December 31, 2013, the Group did not recognize accrued late-payment interest (a statutory right) on its portfolio of receivables not yet invoiced to the debtors and completely wrote off receivables for late-payment interest invoiced to the debtors through a special provision recorded as a deduction from the asset, given that it was unable to reliably estimate the recoverability of the interest and the requirements of IAS 18 for recognition in the financial statements could not be met. When the late-payment interest was actually collected, the income statement was credited for the amount. During 2014, the Group acquired analysis tools that enabled it to obtain a time series of data such as to permit the computation of a reliable estimate of the probable amount of late-payment interest that would probably be collected. Accordingly, beginning with the financial statements for the year ended December 31, 2014, the Group applied the percentage of recoverability to receivables for late-payment interest determined following the abovementioned analysis, instead of completely writing off the receivables as in previous years.
- Interest income on securities classified in the available-for-sale and held-to-maturity portfolios and interest expense on securities issued by the Group, are recognized at amortized cost, i.e., by applying to the face value of the securities the effective interest rate of return (IRR), determined as the difference between the coupon rate of interest and the purchase price of the same security and taking into account any issue discount. The interest thus computed is recognized in the income statement pro-rated over the duration of the financial asset or liability.
- Fees and commissions for receivables managed on behalf of assignors are recognized in two successive steps in relation to the timing and nature of the service rendered:
  - when the receivables are entrusted for management (fees and commissions on acceptance and handling expenses);
  - when the receivables are collected (collection fees and commissions).

PART A—OVERVIEW OF ACCOUNTING POLICIES (Continued)

A.3—DISCLOSURE ABOUT TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

In 2015, as was the case in 2043, there were no reclassifications of financial assets.

A.4—FAIR VALUE DISCLOSURE

Qualitative information

A.4.1 Fair value Levels 2 and 3: valuation techniques and inputs used

Financial assets/liabilities held for trading refer to the recognition of the fair value of financial derivatives, and are classified as Level 2, because the inputs used for measurement are not quoted prices in an active market, observable directly or indirectly, but are obtained from external providers. The valuation techniques used to determine Level 2 fair value are based on expected cash flows, using market parameters. In the measurement of the fair value of derivatives, the credit risk inherent in the instruments was taken into account through the computation of the credit value adjustment (CVA) and the debit value adjustment (DVA). The valuations of the assets and liabilities, classified as Level 3 are not based on observable market data.

A.4.2 Valuation processes and sensitivities

These financial instruments are used to hedge fluctuations in the market rate compared with the fixed rate included in non-recourse commissions on purchases of non-recourse receivables.

At the reporting dates of December 31, 2015, 2014 and 2013, the amount recognized corresponded to the fair value of the instrument, not deriving from internal estimates but communicated by the instrument's counterparty. The fair value change in such financial assets/liabilities compared with December 31, 2015, 2014 and 2013 requires the recognition in profit or loss of a net gain/loss (+/−) on trading activities.

A.4.3 Fair value hierarchy

In 2015, as was the case in 2014, there were no transfers between Level 1, Level 2 and Level 3.

Quantitative information

All amounts are stated in thousands of euros.

PART A—OVERVIEW OF ACCOUNTING POLICIES (Continued)

A.4.5 Fair value hierarchy

A.4.5.1Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value levels

	At December 31,								
	2015			2014			2013		
(In thousands of Euro)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Held-for-Trading Financial Assets								5	
2. Financial assets valued at fair value									
3. Available-for-sale financial assets	429,415		23	370,157		23	81,992		23
4. Hedging derivatives									
5. Property, plant and equipment									
6. Intangible assets									
Total	**429,415**	**—**	**23**	**370,157**	**—**	**23**	**81,992**	**5**	**23**
1. Held-for-trading financial liabilities					46			548	
2. Financial liabilities valued At fair value									
3. Hedging derivatives					47				
Total	**—**	**—**	**—**	**—**	**93**	**—**	**—**	**548**	**—**

Key:

Level 1: fair value of a financial instrument quoted on an active market;

Level 2: fair value measured based on valuation techniques that make reference to observable market parameters, other than listings of the financial instrument;

Level 3: fair value calculated based on valuation techniques that make reference to non-observable market parameters.

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value levels

	At December 31											
	2015				2014				2013			
(In thousands of Euro)	CA	L1	L2	L3	CA	L1	L2	L3	CA	L1	L2	L3
1. Held-to-maturity financial assets	822,859	826,912			955,932	957,357						
2. Loans to banks	60,523			60,523	97,726			97,726	325,944			325,944
3. Receivables and loans	1,962,004			1,962,004	1,554,957			1,554,957	1,136,578			1,136,578
4. Property held for investment purposes												
5. Non-current assets and asset groups under divestment												
Total	**2,845,386**	**826,912**	**—**	**2,022,527**	**2,608,615**	**957,357**	**—**	**1,652,683**	**1,462,522**	**—**	**—**	**1,462,522**
1. Bank loans and borrowings	688,081			688,081	968,264			968,264	804,451			804,451
2. Amounts due to customers	1,726,683			1,726,683	1,168,587			1,168,587	173,438			173,438
3. Debt securities issued	452,962	302,277	150,000		468,562	299,175	166,650		320,000		320,000	
4. Liabilities associated with assets under divestment												
Total	**2,867,726**	**302,277**	**150,000**	**2,414,764**	**2,605,413**	**299,175**	**166,650**	**2,136,851**	**1,297,889**	**—**	**320,000**	**977,889**

Key:

CA = Carrying amount

L1 = Level 1: fair value of a financial instrument quoted on an active market;

L2 = Level 2: fair value measured based on valuation techniques that make reference to observable market parameters, other than listings of the financial instrument;

L3 = Level 3: fair value calculated based on valuation techniques that make reference to non-observable market parameters.

PART A—OVERVIEW OF ACCOUNTING POLICIES (Continued)

A.5—DISCLOSURE ABOUT DAY ONE PROFIT/LOSS

In the 2015, 2014 and 2013 reporting years, the Group did not and does not hold any financial assets to which this disclosure is applicable.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

Section 1—Cash and cash balances—Item 10

1.1 Breakdown of Cash and cash balances

(In thousands of Euro)	At December 31, 2015	2014	2013
Cash and cash balances: breakdown			
a) Cash	2	3	1
b) Unrestricted deposits with central banks	158		
Total	**160**	**3**	**1**

The balances at December 31, 2015, 2014 and 2013 represent the cash on hand. There were no significant changes in this account during the three years subject of these Notes.

The balance at December 31, 2015, includes the cash on hand and the account established by Banca Farmafactoring with the Bank of Italy.

Section 2—Financial assets held for trading—Item 20

Financial assets held for trading include financial instruments that hedge the interest rate risk.

The amounts at December 31, 2013 refer to financial derivatives issued by banks, classified in the fair value hierarchy as Level 2. The Group held no such assets at December 31, 2015 and 2014.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

2.1 Financial assets held for trading: breakdown by type

	At December 31								
	2015			2014			2013		
(In thousands of Euro)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. BALANCE SHEET ASSETS									
1. Debt securities									
1.1 Structured securities									
1.2 Other debt securities									
2. Equity securities									
3. Units in investment funds									
4. Loans									
4.1 Reverse repos									
4.2 Other									
Total A	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
B. DERIVATIVE INSTRUMENTS									
1. Financial derivatives									
1.1 Trading								5	
1.2 Related to fair value option									
1.3 Other									
2. Credit derivatives									
2.1 Trading									
2.2 Related to fair value option									
2.3 Other									
Total B	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**5**	**—**
Total (A+B)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**5**	**—**

At December 31, 2013, the value of the assets underlying the fair value of the financial derivatives held for trading was €5 thousand and the notional amount of reference was €20 million.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

2.2 Financial assets held for trading: breakdown by debtor/issuer

	At December 31		
(In thousands of Euro)	2015	2014	2013
A. BALANCE SHEET ASSETS			
1. Debt securities			
a) Governments and central banks			
b) Other public sector entities			
c) Banks			
d) Other issuers			
2. Equity securities	—	—	—
a) Banks			
b) Other public sector entities			
—Insurance companies			
—Financial companies			
—Non-financial companies			
—Other			
3. Units in investment funds	—	—	—
4. Loans			
a) Governments and central banks			
b) Other public sector entities			
c) Banks			
d) Other subjects			
Total A	—	—	—
B. DERIVATIVE INSTRUMENTS			
a) Banks			
—Fair value			5
b) Customers			
—Fair value			
Total B	—	—	**5**
Total (A+B)	—	—	**5**

Section 4—Available-for-sale financial assets—Item 40

In 2015 and 2014, the Group purchased government securities with a total face value of €419 million and €368 million, respectively, to hedge the liquidity risk and optimize the cost of money. These securities accrue interest at variable rates (CCT) and have a residual maturity of two years or less. In 2014, the Group sold securities held at December 31, 2013 in its Available-for-Sale (AFS) portfolio for a total of €80 million.

The balance at December 31, 2013 mainly reflects the value of three government securities purchased by BFF in the first half of 2013, to hedge the liquidity risk, for a total face amount of €80 million.

At December 31, 2015, 2014 and 2013, the reserves for AFS securities totaled €481 thousand, €238 thousand and €396 thousand, net of tax effect, respectively. During the same three years, the balances also included €23 thousand for the equity stake held in Nomisma S.p.A.—Società di Studi Economici, carried at cost, absent any other valuation input.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

The main information about the investment is as follows:

	Carrying amount (€/cent)	No. of shares purchased	Nominal value per share (€/cent)	Percentage of investment holding
Nomisma S.p.A.	23,491,75	72,667	0,32	0,356%

Key data about Nomisma S.p.A. at December 31, 2014 is provided below:

Head office	Bologna—Strada maggiore n.44
Share capital	€6,605,829.68 fully paid-in
Equity	€4,874,450
Profit (loss) for the year	€80,063

4.1 Available-for-sale financial assets: breakdown by type

	At December 31								
	2015			2014			2013		
(In thousands of Euro)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities									
1.1 Structured securities									
1.2 Other debt securities	429,415			370,157			81,992		
2. Equity securities									
2.1 Measured at fair value									
2.2 Carried at cost			23			23			23
3. Units in investment funds									
4. Loans									
Total	**429,415**	**—**	**23**	**370,157**	**—**	**23**	**81,992**	**—**	**23**

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

4.2 Available-for-sale financial assets: breakdown by debtor/issuer

(In thousands of Euro)	At December 31 2015	2014	2013
Items/Amounts			
1. Debt securities	429,415	**370,157**	**81,992**
a) Governments and central banks	429,415	370,157	81,992
b) Other public sector entities			
c) Banks			
d) Other issuers			
2. Equity securities	**23**	**23**	**23**
a) Banks			
b) Other public sector entities			
—Insurance companies			
—Financial companies			
—Non-financial companies	23	23	23
—Other			
3. Units in investment funds		**—**	**—**
4. Loans		—	—
a) Governments and central banks			
b) Other public sector entities			
c) Banks			
d) Other subjects			
Total	**429,438**	**370,180**	**82,015**

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

4.4 Available-for-sale financial assets: year-over-year changes

(In thousands of Euro)	Changes during 2014				
	Debt securities	Equity securities	Units in investment funds	Financing	Total
Items/Amounts					
A. Opening balance	**81,992**	**23**			**82,015**
B. Increases	500,138		—	—	**500,138**
B1. Purchases	496,208				
B2. Positive fair value changes	355				
B3. Write backs					
—Recognized in income statement					
—Recognized in equity					
B4. Transfers from other portfolios					
B5. Other changes	3,575				
C. Decreases	**(211,973)**		**—**	**—**	**(211,973)**
C1. Sales	(211,963)				
C2. Redemptions, repayments					
C3. Negative fair value changes					
C4. Impairment losses					
—Recognized in income statement					
—Recognized in equity					
C5. Transfers to other portfolios					
C6. Other changes	(10)				
D. Closing balance	**370,157**	**23**	**—**	**—**	**370,180**

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(In thousands of Euro)	Changes during 2013				
Items/Amounts	**Debt securities**	**Equity securities**	**Units in investment funds**	**Financing**	**Total**
A. Opening balance		**23**			**23**
B. Increases	**82,692**				**82,692**
B1. Purchases	81,676				81,676
B2. Positive fair value changes	592				592
B3. Write backs					
—Recognized in income statement					
—Recognized in equity					
B4. Transfers from other portfolios					
B5. Other changes	424				424
C. Decreases	**(700)**				**(700)**
C1. Sales					
C2. Redemptions, repayments					
C3. Negative fair value changes					
C4. Impairment losses					
—Recognized in income statement					
—Recognized in equity					
C5. Transfers to other portfolios					
C6. Other changes	(700)				(700)
D. Closing balance	**81,992**	**23**	**—**	**—**	**82,015**

Positive changes in fair value are represented before tax effect.

Section 5—Held-to-maturity financial assets—Item 50

In 2015 and 2014,also to hedge the liquidity risk and optimize the cost of money, the Group purchased government securities with a total face value of €799.5 million and €928 million, classified in the HTM portfolio.

These securities accrue interest at a fixed rate (BOT, BTP e CTZ), with maturity dates correlated to the sources of committed and unsecured funding.

The HTM portfolio refers to financial assets that the Company intends to hold until the maturity date set in the contract, and which entail the collection of fixed and determinable amounts.

At December 31, 2015 and 2014, the fair value of these securities amounted to €826,912 thousand and €957,357 thousand, respectively.

At December 31, 2013, the Group did not own any held-to-maturity financial assets.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

5.1 Held-to-maturity financial assets: breakdown by type

(In thousands of Euro)	At December 31, 2015				At December 31, 2014				At December 31, 2013			
		FV				FV				FV		
	CA	Level 1	Level 2	Level 3	CA	Level 1	Level 2	Level 3	CA	Level 1	Level 2	Level 3
Items/Amounts												
1. Debt securities												
—Structured												
—Other	822,859	826,912			955,932	957,357						
2. Loans												
Total	**822,859**	**826,912**	**—**	**—**	**955,932**	**957,357**	**—**	**—**	**—**	**—**	**—**	**—**

5.2 Held-to-maturity financial assets: breakdown by debtor/issuer

(In thousands of Euro)	At December 31 2015	2014	2013
Types of Transactions/Amounts			
1. Debt securities	**822,859**	**955,932**	**—**
a) Governments and Central Banks	822,859	955,932	
b) Other Public Sector Entities			
c) Banks			
d) Other Issuers			
2. Loans	—	—	—
a) Governments and Central Banks			
b) Other Public Sector Entities			
c) Banks			
d) Other Subjects			
Total	**822,859**	**955,932**	**—**
Total fair value	**826,912**	**957,357**	**—**

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

5.4 Held-to-maturity financial assets: year-over-year changes

(In thousands of Euro)	Changes during 2014		
Items/Amounts	**Debt securities**	**Loans**	**Total**
A. Opening balance			
B. Increases	1,131,314	—	**1,131,314**
B1. Purchases	1,121,172		1,121,172
B2. Write backs			
B3. Transfers from other portfolios			
B4. Other changes	10,142		10,142
C. Decreases	(175,382)	—	(175,382)
C1. Sales			
C2. Redemptions, repayments	(165,545)		(165,545)
C3. Value adjustments			
C4. Transfers to other portfolios			
C5. Other changes	(9,837)		(9,837)
D. Closing balance	**955,932**	**—**	**955,932**

Section 6—Due from banks—Item 60

This receivable mainly refers to current account transactions generated by liquidity from amounts collected in the closing days of the year, pending clearance, relating both to "receivables management" and "management of receivables purchased a non-recourse basis."

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

6.1 Receivables with banks: breakdown by type

	At December 31											
	2015				2014				2013			
(In thousands of Euro)	CA	L1	L2	L3	CA	L1	L2	L3	CA	L1	L2	L3
Types of Transactions/ Amounts												
A. Due from central banks	—	—	—	—	37,194	—	—	37,194	—	—	—	—
1. Time deposits												
2. Mandatory reserve												
3. Reverse repos												
4. Other					37,194			37,194				
B. Due from banks	**60,523**	**—**	**—**	**60,523**	**60,532**	**—**	**—**	**60,532**	**325,944**	**—**	**—**	**325,944**
1. Loans												
1.1 Current accounts and demand deposits	54,735			54,735	59,613			59,613	324,481			324,481
1.2 Time deposits	5,788			5,788	919			919	1,462			1,462
1.3 Other loans												
—Reverse repos												
—Finance leases												
—Other									1			1
2. Debt securities												
2.1 Structured securities												
2.2 Other debt securities												
Total	**60,523**	**—**	**—**	**60,523**	**97,726**	**—**	**—**	**97,726**	**325,944**	**—**	**—**	**325,944**

Key:

FV = Fair value

CA = Carrying amount

In July 2014, in order to access directly the Target 2 international settlement system and transfer directly its assets to the ECB, BFF completed the process of transitioning from acting through Istituto Centrale delle Banche Popolari—ICBPI to direct access to Target 2 and concurrently established a Real Time Gross Settlement account (RTGS) with the Bank of Italy. By gaining direct access to Target 2 and concurrently establishing a Pooling Account to manage guarantees, BFF consolidated the use of the OMA auctions at the ECB as a tool to refinance its securities portfolio, in conjunction with the reverse repos with Cassa di Compensazione e Garanzia and market counterparties, in addition to being able to transfer collateralized assets to the ECB through the ABACO platform.

At December 31, 2015, 2014 and 2013, restricted deposits included, respectively, €5,788 thousand €919 thousand and €750 thousand in mandatory reserve deposit with ICBPI, as BFF is indirectly a participant in that system as of its transformation into a bank

Current accounts include €3,382 thousand at December 31, 2015, €9,452 thousand at December 31, 2014 and €398 thousand at December 31, 2013 relating to transactions with ICBPI, which performs the function of conduit institution, on BFF's behalf, in the payment services and systems areas. In addition, the data at December 31, 2015 and 2014 include €157,327 thousand and €37,194 thousand, respectively, for the Target 2 Real Time Gross Settlement account (RTGS) established by BFF with the Bank of Italy and activated in July 2014.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

This item does not include any impaired assets.

Section 7—Due from customers—Item 70

This item mainly include receivables from debtors, including receivables for late-payment interest resulting from factoring transactions.

Until December 31, 2013, invoiced receivables for late-payment interest were completely written off through a provision recognized as a deduction from the corresponding asset and late-payment interest accrued but not yet invoiced to the debtor was not recognized. When the late-payment interest was actually collected, the write-off was reversed and the late-payment interest was credited to the income statement based on the percentage of recovery effectively realized.

Beginning in 2014, BFF acquired analysis tools that enabled it to obtain a time series of data such as to permit the computation of a reliable estimate of the amount of late-payment interest that will likely be collected and the estimated collection time. Accordingly, beginning with the financial statements for the year ended December 31, 2014, BFF applied to receivables for late-payment interest the write down percentage determined in accordance with the abovementioned analyses.

The weighted average trend of the collection percentages for the years included in the time series considered was greater than 40% and, consequently, this percentage was conservatively used as the estimate of the amount of late-payment interest that will be collected in the future, which was then recognized as a receivables in the amount of €113,396 thousand, with the time of collection estimated at 1,800 days from the due date of the purchased invoice. H

With regard to the receivables purchased by Farmafactoring España, the average recovery percentage for late-payment interest observed tends to be equal to 100% and, on average, is collected in less time than receivables from the Italian National Healthcare System. However, since the sample observed was relatively small, a conservative decision was made to opt for the utilization of the same recovery rate of 40% and the same collection time of 1,800 days used by BFF.

The cumulative amount of late-payment interest to which the Group is entitled and not yet collected, in relation to receivables purchased on a non-recourse basis (the Provision account for late-payment interest) amounted to €460 million, €427 million and €386 million, respectively, for the years ended December 31, 2015, 2014 and 2013. It is worth mentioning that in 2015 a portion of this provision, amounting to €151 million was reversed into profit or loss for the year and previous years.

7.1 Due from customers: breakdown by type

A breakdown of this item is provided below:

a) performing receivables purchased on a non-recourse basis, recorded in the name of the assigned debtor, which meet the conditions for derecognition and are measured at amortized cost, with a balance of €1,833,961 thousand at December 31, 2015, €1,523,383 thousand at December 31, 2014 €1,119,125 thousand at December 31, 2013.

This amount includes "not impaired past due receivables", in accordance with the provisions of Circular No. 272 of July 30, 2008 and subsequent updates—"Account Matrix," for a total of €386,219 thousand at December 31, 2015, €255,287 thousand at December 31, 2014 and €180,745 thousand at December 31, 2013. Most of the receivables purchased on a non-recourse basis were already past due at the time of purchase and the principal portion of the receivables that is deemed collectible. The right to the late-payment interest, accrued or accruing, is acquired at the same time the receivables are purchased.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

These receivables include receivables sold, totaling €233,484 thousand at December 31, 2015, €242,685 thousand at December 31, 2014 and €308,557 thousand at December 31, 2013, but not derecognized as the sales transaction did not meet the derecognition requirements, i.e., the transfer of the risks and benefits associated with such receivables. These amounts refer to three transactions for the securitization of healthcare receivables.

"Impaired assets," which reflect exposures for receivables purchased below face value, amounted to €45,741 thousand at December 31, 2015, €12,777 thousand at December 31, 2014 and €8.367 thousand at December 31, 2013. They include:

- *Non-performing receivables*, which totaled €2,507 thousand at December 31, 2015, €2,936 thousand at December 31, 2014 and €2,368 thousand at December 31, 2013.

  At December 31, 2015, the balance included €0.9 million owed by the debtor Fondazione Centro San Raffaele del Monte Tabor in liquidation and composition with creditors proceedings. In July 2015, a payment of €1.5 million was received from the non-performing debtors Fondazione Centro San Raffaele del Monte Tabor in liquidation and composition with creditors proceedings, representing the third distribution and equal to 6% of the verified claim. As a result, the remaining exposure decreased from € 2.4 million to €0.9 million, with no impact on the income statement, as the position had not been previously written off.

  At December 31, 2014, the balance included €2.4 million for the exposure with the debtor Fondazione San Raffaele del Monte Tabor. On March 19, 2012, after the claim for the principal amount and the late-payment interest (written off in full) was verified within the framework of the Composition with Creditors and approved by the Creditors' Meeting, BFF decided not to recognize any provision for the principal amount since the total of the amounts that will be collected for the verified claim is in line with the outstanding principal amount. In 2013, Fondazione Monte Tabor in liquidation and in composition with creditor proceedings, paid the first two distributions, totaling about €9.6 million. In 2014, another debtor and an assignor were classified non-performing for an amount of approximately €570 thousand, which was not written off because it is covered by a surety. The provision for late-payment interest, relating to non-performing positions and amounting to €14.9 million, was completely written off. It referred mainly to the exposure with Fondazione Centro San Raffaele del Monte Tabor in liquidation and composition with creditors proceedings.

  At December 31, 2013, the exposure with Fondazione San Raffaele del Monte Tabor accounted for the entire amount of non-performing positions.

  At December 31, 2015, other non-performing positions totaled about €3.3 million, including positions amounting to about €1.7 million that were completely written off against the corresponding provision and, consequently have a zero balance. The remaining positions, totaling about €1.6 million were not written down as they consist of positions secured by sureties and exposures with local government entities in distress (including €743 thousand purchased already as distressed and €312 thousand purchased as performing and later classified as distressed), for which no provisions were recognized, as the distressed condition is expected to be remedied resulting in the collection of 100% of the claim.

  At December 31, 2014 and 2013, all other non-performing positions were completely written off through a provision.

- *Doubtful receivables*: this account, which consists entirely of "objectively" doubtful receivables, had a zero balance at December 31, 2015 and balances of €62 thousand at December 31, 2014 and €196 thousand at December 31, 2013.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

- *Past due receivables*: which amounted to €43,234 thousand at December 31, 2015, €9,779 thousand at December 31, 2014 and €5.803 thousand at December 31, 2013, include the following:

b) other loans due from customers, amounting to €127,288 thousand at December 31, 2015, €19,223 thousand at December 31, 2014 and €9,086 thousand at December 31, 2013, include:

- accrued and accruing late-payment interest at December 31, 2015 and 2014 amounting, respectively, to €92,083 thousand and €79,180 thousand, which include €9,201 thousand and €2,010, respectively, attributable to the Spanish subsidiary;
- advances to assignors for €2,230 thousand at December 31, 2015, €855 thousand at December 31, 2014 and €2,244 thousand at December 31, 2013;
- receivables from assignors for legal fees to be recovered for €2,204 thousand at December 31, 2015, €2,234 thousand at December 31, 2014 and €2,187 thousand at December 31, 2013;
- receivables for commissions to be invoiced to assignors and for interest on extended payment terms to be charged to debtors for €2,213 thousand at December 31, 2015, €2,630 thousand at December 31, 2014 and €2,956 thousand at December 31, 2013;
- receivables for invoiced late-payment interest referring only to December 31, 2013, which amounted to €102,468 thousand at December 31, 2013, written off in full each year;
- non-performing assignors for €427 thousand at December 31, 2014;
- margins deposited as collateral with Cassa di Compensazione e Garanzia to secure reverse repos for €29,063 thousand and €13,077 thousand at December 31, 2015 and 2014, respectively.

Past due receivables, which amounted to €43.234 thousand in 2015, €9,779 thousand at December 31, 2014 and €5.803 thousand at December 31, 2013, consist of receivables from central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies. These receivables are more than 90 days past due. Specifically, exposure with central administrations and central banks, public sector entities and territorial entities are deemed to be past due when the debtor has not made any payment for any of the debt positions owed to the financial intermediary for more than 90 days.

"Objectively" doubtful receivables—zero balance at December 31, 2015, €62 thousand at December 31, 2014 and €196 thousand at December 31, 2013—consist of amounts owed by parties who are in temporary situations of objective difficulty, the resolution of which is foreseeable within a reasonable period. Non-performing receivables amounting to €2.507 thousand in 2015, €2.936 thousand at December 31, 2014 and €2.368 thousand at December 31, 2013, consist of exposures with parties that are in a state of insolvency or substantially similar situations, irrespective of any loss projections developed by the Company.

Non-performing receivables thus include all receivables the collection of which is doubtful, net of writedowns for estimated impairment losses on receivables and any write-backs. Receivables purchased below face value amounted to €22,696 thousand (net of write-downs for €41 thousand) at December 31, 2015, €15,733 thousand (net of write-downs for €61 thousand) at December 31, 2014 and €2,447 thousand (net of write-downs for €22 thousand) at December 31, 2013. In 2015, 2014 and 2013, the realizable value

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

of receivables purchased below face value amounted to €532 thousand, €3,483 thousand and €2,134 thousand, respectively.

(In thousands of Euro)	At December 31 2015					
	Carrying amount			Fair value		
		Impaired				
	Performing	Purchased	Other	L1	L2	L3
Types of Transactions/Amounts						
Loans						
1. Current accounts				X	X	X
2. Reverse repos				X	X	X
3. Mortgages				X	X	X
4. Credit cards, personal loans, garnishment of wages				X	X	X
5. Finance leases				X	X	X
6. Factoring	1,788,975	743	44,243	X	X	X
7. Other loans	127,288		755	X	X	X
Debt securities						
8. Structured securities				X	X	X
9. Other debt securities				X	X	X
Total	**1,916,263**	**743**	**44,998**			

(In thousands of Euro)	At December 31 2014					
		Impaired		Fair value		
	Performing	Purchased	Other	L1	L2	L3
Types of Transactions/Amounts						
Loans						
1. Current accounts						
2. Reverse repos						
3. Mortgages						
4. Credit cards, personal loans, garnishment of wages						
5. Finance leases						
6. Factoring	1,523,383		12,350			1,535,734
7. Other loans	18,797		427			19,223
Debt securities						
8. Structured securities						
9. Other debt securities						
Total	**1,542,180**	**—**	**12,777**	**—**	**—**	**1,554,957**

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	At December 31 2013					
		Impaired		Performing		
(In thousands of Euro)	Performing	Purchased	Other	L1	L2	L3
Types of Transactions/Amounts						
Loans						
1. Current accounts						
2. Reverse repos						
3. Mortgages						
4. Credit cards, personal loans, garnishment of wages						
5. Finance leases						
6. Factoring	1,119,125		8,367			1,127,492
7. Other loans	9,086					9,086
Debt securities						
8. Structured securities						
9. Other debt securities						
Total	**1,128,211**	**—**	**8,367**	**—**	**—**	**1,136,578**

Legal actions are mainly aimed pursued with the aim of accelerating the recovery of receivables.

Fair value

The financial statement item Due from customers mainly refers to receivables purchased on a non-recourse basis for which an active and liquid market is not available. They mainly consist of past due receivables from the Public Administration for which the price in a hypothetically independent transaction cannot be easily determined, partly due to difficulties in arriving at a reasonable assessment of the liquidity risk that would be accepted by the market for such transactions. Consequently, the carrying amount (determined based on "amortized cost" and taking into account any individual and collective impairment losses and in relation to the nature, type, duration and collection projections of such assets) was deemed to be substantially representative of the fair value of these receivables on the reporting date.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

7.2 Due from customers: breakdown by debtor/issuer

	At December 31								
	2015			2014			2013		
		Impaired			Impaired			Impaired	
(In thousands of Euro)	Performing	Purchased	Other	Performing	Purchased	Other	Performing	Purchased	Other
Types of Transactions/ Amounts									
1. Debt securities									
a) Governments									
b) Other public sector entities									
C) Other issuers									
—Non-financial companies									
—Financial companies									
—Insurance companies									
—Other									
2. Loans to									
a) Governments	281,571		31	110,773		5,247	11,320		
b) Other public sector entities	1,584,138	743	10,029	1,385,741		3,394	1,107,714		5,798
C) Other issuers									
—Non-financial companies	6,506		33,707	23,726		1,050	2,293		130
—Financial companies	28,932			13,655			1,700		
—Insurance companies									
—Other	15,116		1,231	8,285		3,086	5,184		2,439
Total	**1,916,263**	**743**	**44,998**	**1,542,180**	**—**	**12,777**	**1,128,211**	**—**	**8,367**

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

Section 12—Property, plant and equipment—Item 120

12.1 Property, plant and equipment used for business activities: breakdown of assets carried at cost

(In thousands of Euro)	At December 31		
	2015	2014	2013
Assets/Amounts			
1) Owned assets			
a) Land	3,685	3,685	3,685
b) Buildings	7,470	7,582	7,634
c) Furniture and fixtures	275	300	348
d) Electronic systems	873	684	533
e) Other	363	442	629
2.)Leased assets acquired under finance leases			
a) Land			
b) Buildings			
c) Furniture and fixtures			
d) Electronic systems			
e) Other			
Total	**12,666**	**12,693**	**12,829**

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

12.5 Property, plant and equipment used for business activities: year-over-year changes

	At December 31, 2015					
(In thousands of Euro)	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross Opening balances	**3,685**	**16,617**	**2,390**	**5,435**	**5,211**	**33,338**
A.1 Total net reduction in value	—	(9,035)	(2,090)	(4,751)	(4,769)	**(20,645)**
A.2 Net Opening balance	**3,685**	**7,582**	**300**	**684**	**442**	**12,693**
B. Increases						
B.1 Purchases		211	51	714	112	1,088
B.2 Capitalized improvements						
B.3 Write backs						
B.4 Positive fair value changes allocated to:						
a) Equity						
b) Income statement						
B.5 Net exchange gains						
B.6 Transfers from properties held for investment						
B.7 Other changes						
C. Decreases						
C.1 Disposals						
C.2 Depreciation		(323)	(76)	(525)	(191)	(1,115)
C.3 Impairment losses						
Allocated to:						
a) Equity						
b) Income statement						
C.4 Negative fair value changes allocated to:						
a) Equity						
b) Income statement						
C.5 Net exchange losses						
C.6 Transfers to:						
a) Property, plant and equipment held for investment						
b) Assets held for sale						
C.7 Other changes						
D. Net Closing balance	**3,685**	**7,470**	**275**	**873**	**363**	**12,666**
D.1 Net impairment loss		(9,358)	(2,166)	(5,275)	(4,960)	(21,759)
D.2 Gross Closing balance	**3,685**	**16,828**	**2,441**	**6,148**	**5,323**	**34,425**
E. Carried at cost	3,685	16,828	2,441	6,148	5,323	34,425

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(In thousands of Euro)	At December 31, 2014					
	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross Opening balances	**3,685**	**16,355**	**2,352**	**4,914**	**5,115**	**32,421**
A.1 Total net reduction in value	0	(8,721)	(2,004)	(4,381)	(4,486)	(19,592)
A.2 Net Opening balance	**3,685**	**7,634**	**348**	**533**	**629**	**12,829**
B. Increases						
B.1 Purchases		262	39	520	96	917
B.2 Capitalized improvements						
B.3 Write backs						
B.4 Positive fair value changes allocated to:						
a) Equity						
b) Income statement						
B.5 Net exchange gains						
B.6 Transfers from properties held for investment						
B.7 Other changes						
C. Decreases						
C.1 Disposals						
C.2 Depreciation		(314)	(87)	(369)	(283)	(1,053)
C.3 Impairment losses						
Allocated to:						
a) Equity						
b) Income statement						
C.4 Negative fair value changes allocated to:						
a) Equity						
b) Income statement						
C.5 Net exchange losses						
C.6 Transfers to:						
a) Property, plant and equipment held for investment						
b) Assets held for sale						
C.7 Other changes						
D. Net Closing balance	**3,685**	**7,582**	**300**	**684**	**442**	**12,693**
D.1 Net impairment loss		(9,035)	(2,090)	(4,751)	(4,769)	(20,645)
D.2 Gross Closing balance	**3,685**	**16,617**	**2,390**	**5,435**	**5,211**	**33,338**
E. Carried at cost	3,685	16,617	2,390	5,435	5,211	33,338

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	At December 31, 2013					
(In thousands of Euro)	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross Opening balances	**3,685**	**7,888**	**421**	**636**	**788**	**13,418**
A.1 Total net reduction in value						
A.2 Net Opening balance	**3,685**	**7,888**	**421**	**636**	**788**	**13,418**
B. Increases						
B.1 Purchases		108	31	353	136	628
B.2 Capitalized improvements						
B.3 Write backs						
B.4 Positive fair value changes allocated to:						
a) Equity						
b) Income statement						
B.5 Net exchange gains						
B.6 Transfers from properties held for investment						
B.7 Other changes						
C. Decreases						
C.1 Disposals						
C.2 Depreciation		(362)	(104)	(456)	(295)	(1,217)
C.3 Impairment losses						
Allocated to:						
a) Equity						
b) Income statement						
C.4 Negative fair value changes allocated to:						
a) Equity						
b) Income statement						
C.5 Net exchange losses						
C.6 Transfers to:						
a) Property, plant and equipment held for investment						
b) Assets held for sale						
C.7 Other changes						
D. Net Closing balance	**3,685**	**7,634**	**348**	**533**	**629**	**12,829**
D.1 Net impairment loss	—	(8,721)	(2,004)	(4,381)	(4,486)	(19,592)
D.2 Gross Closing balance	**3,685**	**16,355**	**2,352**	**4,914**	**5,115**	**32,421**
E. Carried at cost						

At the date of IFRS first-time adoption (January 1, 2005), buildings owned and used by the Group in its business activities (Milan and Rome) were measured at fair value, which became the new carrying amount of the assets as of that date. The measurement at first-time adoption resulted in a revaluation of the buildings for approximately €4 million, from approximately €5 million to €9 million.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

In the financial statements, the land and building owned in Milan (at 5 Via Domenichino) were valued separately based on an appraisal conducted by the Company to determine their value. The land on which the Rome building sits was not separated because BFF is not the owner of the entire building.

Section 13—Intangible assets—Item 130

13.1 Intangible assets: breakdown by asset type

	At December 31					
	2015		2014		2013	
(In thousands of Euro)	Finite life	Indefinite life	Finite life	Indefinite life	Finite life	Indefinite life
Assets/Amounts						
A.1 Goodwill						
A.1.1 Attributable to the Group						
A.1.2 Attributable to non-controlling interests						
A.2 Other intangible assets						
A.2.1 Assets measured at cost:						
a) intangible assets generated internally						
b) other	2,747		2,053		1,122	
A.2.2 Assets measured at fair value:						
a) Intangible assets generated internally						
b) Other						
Total	**2,747**	**—**	**2,053**	**—**	**1,122**	**—**

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

13.2 Intangible assets: year-over-year changes

	At December 31, 2015					
		Generated internally		Other intangible assets		
(In thousands of Euro)	Goodwill	Finite life	Indefinite life	Finite life	Indefinite life	Total
A. Opening balance				**2,053**		**2,053**
A.1 Total net reduction in value						
A.2 Net Opening balance				**2,053**		**2,053**
B. Increases						
B.1 Purchases				1,716		1,716
B.2 Increase in internally generated intangible assets						
B.3 Write backs						
B.4 Positive fair value changes allocated to:						
—Equity						
—Income statement						
B.5 Exchange gains						
B.6 Other changes						
C. Decreases						
C.1 Disposals						
C.2 Adjustments for						
—Amortization				(1,022)		(1,022)
—Impairment losses						
—Equity						
—Income statement						
C.3 Negative fair value changes allocated to:						
—Equity						
—Income statement						
C.4 Transfers to non-current assets held for sale						
C.5 Exchange losses						
C.6 Other changes						
D. Closing balance	**—**	**—**	**—**	**2,747**	**—**	**2,747**
D.1 Net impairment loss						
E. Gross Closing balance	**—**	**—**	**—**	**2,747**	**—**	**2,747**
F. Carried at cost				**2,747**		**2,747**

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	At December 31, 2014					
		Generated internally		Other intangible assets		
(In thousands of Euro)	Goodwill	Finite life	Indefinite life	Finite life	Indefinite life	Total
A. Opening balance				1,122		**1,122**
A.1 Total net reduction in value				—		**—**
A.2 Net Opening balance				1,122		**1,122**
B. Increases						
B.1 Purchases				1,620		**1,620**
B.2 Increase in internally generated intangible assets						
B.3 Write backs						
B.4 Positive fair value changes allocated to:						
—Equity						
—Income statement						
B.5 Exchange gains						
B.6 Other changes						
C. Decreases						
C.1 Disposals						
C.2 Adjustments for						
—Amortization				(689)		**(689)**
—Impairment losses						
—Equity						
—Income statement						
C.3 Negative fair value changes allocated to:						
—Equity						
—Income statement						
C.4 Transfers to non-current assets held for sale						
C.5 Exchange losses						
C.6 Other changes						
D. Closing balance				**2,053**		**2,053**
D.1 Net impairment loss						
E. Gross Closing balance				**2,053**		**2,053**
F. Carried at cost						

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	At December 31, 2013					
		Generated internally		Other intangible assets		
(In thousands of Euro)	Goodwill	Finite life	Indefinite life	Finite life	Indefinite life	Total
A. Opening balance				**1,298**		**1,298**
A.1 Total net reduction in value						
A.2 Net Opening balance				**1,298**		**1,298**
B. Increases						
B.1 Purchases				396		396
B.2 Increase in internally generated intangible assets						
B.3 Write backs						
B.4 Positive fair value changes allocated to:						
—Equity						
—Income statement						
B.5 Exchange gains						
B.6 Other changes						
C. Decreases						
C.1 Disposals						
C.2 Adjustments for						
—Amortization				(572)		(572)
—Impairment losses						
—Equity						
—Income statement						
C.3 Negative fair value changes allocated to:						
—Equity						
—Income statement						
C.4 Transfers to non-current assets held for sale						
C.5 Exchange losses						
C.6 Other changes						
D. Closing balance	**—**	**—**	**—**	**1,122**	**—**	**1,122**
D.1 Net impairment loss						
E. Gross Closing balance	**—**	**—**	**—**	**1,122**	**—**	**1,122**
F. Carried at cost						

Section 14—Tax assets and liabilities—Item 140 of assets and Item 80 of liabilities

Current tax assets amounted to €25,113 thousand at December 31, 2015 (€28,572 thousand at December 31, 2014 and €37,879 thousand at December 31, 2013).

The balance at December 31, 2013 reflects the effects of the enactment of Decree Law No. 102 of August 31, 2013 and Decree Law No. 133 of November 30, 2013, which increased to 130% estimated corporate income tax (IRES) and regional tax (IRAP) payments for banks and financial companies for the 2013 tax year.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

Current tax liabilities amounted to €23,805 thousand at December 31, 2015 (€30,885 thousand at December 31, 2014 and €35,796 thousand at December 31, 2013).

The amount of current tax liabilities at December 31, 2014 was affected by a change in method used to estimate the provision for late-payment interest adopted by the Group. This led to the recognition in 2014 of the effects of such change, both on the receivables recognized during the year and those recognized in prior years, resulting in the recognition of very significant nonrecurring income in the income statement. This income gave rise to higher current taxes of about €6 million and higher deferred taxes of about €31 million.

The amount of current tax liabilities at December 31, 2013 was affected by the enactment of Decree Law No. 133 of November 30, 2013, which, for 2013, levied on credit, financial and insurance companies and 8.5% IRES surcharge, increasing this tax rate from 27.5% to 36%.

14.1 Deferred tax assets: breakdown

The main components of deferred tax assets include the portion of amounts deductible in future years of impairment charges on receivables, the accrual on deferred employee benefit obligations, and depreciation and amortization the recognition of which is deferred for tax purposes. With regard to the latter, in 2014 BFF settled the dispute pending with the Revenue Agency for the years 2005 to 2009. The dispute referred to the tax write-back of depreciation and amortization taken in excess of the allowed deductible amount, following the reclassification for tax purposes of a financial statement item. Since the Revenue Agency's objection referred to the timing of the recognition of the expense, meaning that the deductibility of the costs was merely postponed, the additional taxes paid in the settlement were recognized as a deferred tax asset since they will be recovered in subsequent years.

Deferred tax assets through the statement of financial position refer to the reserves for hedging derivatives.

14.2 Deferred tax liabilities: breakdown

Deferred tax liabilities mainly refer to the allowances for impairment of receivables attributable to previous years and late-payment interest recognized in the financial statements on an accrual basis but which will form part of the taxable income in future years when the interest is collected, in accordance with Article 109, Section 7, of Presidential Decree No. 9917 of 1986.

The tax rates used are the ordinary rates.

The deferred tax liabilities through equity mainly refer to the reserve for the portfolio of Company-owned securities, classified as available for sale.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

14.3 Change in deferred tax assets (through the income statement)

(In thousands of Euro)	At December 31		
Items/Amounts	2015	2014	2013
1. Opening balance	**2,193**	**2,204**	**2,841**
2. Increases			
2.1 Deferred tax assets recognized during the year			
a) Relating to prior years			
b) Due to changes in accounting policies			
c) Write backs			
d) Other	556	837	348
2.2 New taxes or tax rate increases			
2.3 Other increases			
3. Decreases			
3.1 Deferred tax assets derecognized during the year			
a) Reversals	(179)	(848)	(985)
b) Write-off due to non-recoverability			
c) Due to changes in accounting policies			
d) Other			
3.2 Tax rate reductions			
3.3 Other decreases			
a) Conversion into tax credit under Law 214/2011			
b) Other			
4. Closing balance	**2,570**	**2,193**	**2,204**

14.3.1 Change in deferred tax assets under Law No. 214/2011 (through the income statement)

(In thousands of Euro)	At December 31		
Items/Amounts	2015	2014	2013
1. Opening balance	**470**	**509**	**548**
2. Increases	**77**	**—**	**—**
3. Decreases			
3.1 Reversals	—	(39)	(39)
3.2 Conversion into tax credit			
a) Due to reported losses			
b) Due to tax losses			
3.3 Other decreases			
4. Closing balance	**547**	**470**	**509**

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

14.4 Change in deferred tax liabilities (through the income statement)

(In thousands of Euro)	At December 31		
Items/Amounts	**2015**	**2014**	**2013**
1. Opening balance	**42,018**	**10,987**	**11,337**
2. Increases			
2.1 Deferred tax liabilities recognized during the year			
a) Relating to prior years			
b) Due to changes in accounting policies			
c) Other	5,200	31,039	
2.2 New taxes or tax rate increases			
2.3 Other increases			
3. Decreases			
3.1 Deferred tax liabilities derecognized during the year			
a) Reversals	(714)	(8)	(314)
b) Due to changes in accounting policies			(36)
c) Other			
3.2 Tax rate reductions			
3.3 Other decreases			
4. Closing balance	**46,504**	**42,018**	**10,987**

14.5 Change in deferred tax assets (through equity)

(In thousands of Euro)	At December 31		
Items/Amounts	**2015**	**2014**	**2013**
1. Opening balance	**352**		
2. Increases			
2.1 Deferred tax assets recognized during the year			
a) Relating to prior years			
b) Due to changes in accounting policies			
c) Other	31	352	
2.2 New taxes or tax rate increases			
2.3 Other increases			
3. Decreases			
3.1 Deferred tax assets derecognized during the year			
a) Reversals	(13)		
b) Due to changes in accounting policies			
c) Other			
3.2 Tax rate reductions			
3.3 Other decreases			
4. Closing balance	**370**	**352**	**—**

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

14.6 Change in deferred tax liabilities (through equity)

(In thousands of Euro)	At December 31 2015	2014	2013
Items/Amounts			
1. Opening balance	**154**	**232**	**—**
2. Increases			
2.1 Deferred tax liabilities recognized during the year			
a) Relating to prior years			
b) Due to changes in accounting policies			36
c) Other	238	118	196
2.2 New taxes or tax rate increases			
2.3 Other increases			
3. Decreases			
3.1 Deferred tax liabilities derecognized during the year			
a) Reversals	(118)	(196)	
b) Due to changes in accounting policies			
c) Other			
3.2 Tax rate reductions			
3.3 Other decreases			
4. Closing balance	**274**	**154**	**232**

The total amount of deferred tax liabilities of €46,778 thousand at December 31, 2015 (€42,172 thousand at December 31, 2014 and €11,219 thousand at December 31, 2013) derives from the sum of deferred taxes:

- through the income statement for €46,504 thousand at December 31, 2015, €42,018 thousand at December 31, 2014 and €10,987 thousand at December 31, 2013; and
- through the statement of financial position for €274 thousand at December 31, 2015, €154 thousand at December 31, 2014 and €232 thousand at December 31, 2013, which mainly refer to the reserve for the portfolio of Company-owned securities, classified as available for sale.

Section 16—Other assets—Item 160

16.1 Other assets: breakdown

(In thousands of Euro)	At December 31 2015	2014	2013
Other assets			
Security deposits	20	26	26
Other receivables	2,027	1,103	1,612
Accrued income and prepaid expenses	1,059	977	7,698
Total	**3,106**	**2,106**	**9,336**

The main components of other receivables primarily refer to non-commercial receivables from sundry debtors and pending items.

BFF is a party to a dispute with the Revenue Agency for the 2014 reporting year in connection with the tax write-back of depreciation taken in excess of the allowed deductible amount, following the reclassification of an item in the financial statements. The Notice of Assessment, amounting to €381 thousand, was reviewed by the Lombardy Regional Tax Commission, which handed down its decision on October 19,

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

2012. This pronouncement, which ran contrary to the decision of the Provincial Tax Commission, was in favor of the Revenue Agency. In the opinion of the Company's tax consultant, the decision is objectionable in that the Regional Tax Commission did not rule on the merit of the tax claim, limiting itself to a merely formal assessment of the ruling handed down by the lower court judges. Therefore, the Company filed an appeal with the Court of Cassation, which has to schedule a hearing for oral arguments. In addition, it is worth mentioning that since the Revenue Agency's tax claim refers to the timing of the recognition of the expense, meaning that the deductibility of the costs was only postponed, any additional taxes that could ultimately be assessed would not constitute a cost for BFF in that they represent deferred taxes that may be recovered in subsequent years. Consequently, the taxes subject of the pending dispute were recognized as an asset, as BFF did not find it necessary to recognize a provision for this pending dispute, in the belief that the tax claim is based upon a questionable interpretation of the law and that it would be reasonable to expect that its arguments will be upheld when the case is heard by the Court of Cassation.

LIABILITIES AND SHAREHOLDERS' EQUITY

Section 1—Due to banks—Item 10

1.1 Due to banks—Item 10: breakdown by type

	At December 31		
(In thousands of Euro)	2015	2014	2013
Bank loans and borrowings			
1. Due to central banks	**206,000**	**420,000**	
2. Bank loans and borrowings			
2.1 Current accounts and demand deposits		5	204,951
2.2 Time deposits	482,076	548,256	599,500
2.3 Loans			
2.3.1 Repos			
2.3.2 Other	5	3	
2.4 Payables in respect of commitments to repurchase treasury shares			
2.5 Other payables			
Total	**688,081**	**968,264**	**804,451**
Fair value—Level 1			
Fair value—Level 2			
Fair value—Level 3	**688,081**	**968,264**	**804,451**
Total fair value	**688,081**	**968,264**	**804,451**

"Due to banks" refers primarily to revocable and term financing facilities provided by the banking system at market rates.

At December 31, 2015 and 2014, "Due to central banks" referred to the deposit made with the Central Bank for BFF's participation in the current auction as part of the Central Bank's monetary policy transactions. This transaction is guaranteed by government securities pledged and deposited in the ECB Pool account.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

Section 2 2—Due to customers—Item 20

2.1 Due to customers: breakdown by type

(In thousands of Euro)	At December 31		
	2015	2014	2013
Types of Transactions/Amounts			
1. Current accounts and demand deposits	21,298	10,567	
2. Time deposits	395,354	215,691	
3. Loans			
3.1 Repos	920,471	595,034	
3.2 Other	267,014	231,946	72,379
4. Payables in respect of commitments To repurchase treasury shares			
5. Other payables	122,546	115,349	101,059
Total	**1,726,683**	**1,168,587**	**173,438**
Fair value—Level 1			
Fair value—Level 2			
Fair value—Level 3	**1,726,683**	**1,168,587**	**173,438**
Total fair value	**1,726,683**	**1,168,587**	**173,438**

"Due to customers" includes the following positions for online deposit accounts offered in Italy and, since August 2015, in Spain:

- €416.7 million at December 31, 2015, including €21.3 million in readily available current account deposits and €395.4 million in escrow deposits;
- €226.3 million at December 31, 2014, including €0.6 million in readily available current account deposits and €215.7 million in escrow deposits.

The counterparty in the reverse repos, amounting to €920,471 thousand at December 31, 2015 and €595,034 thousand at December 31, 2014, is Cassa di Compensazione e Garanzia. These transactions were executed to refinance the Group's securities portfolio.

Other loans include the following:

- a facilty from International Factor Italia S.p.A.—IFITALIA, amounting to €155.6 million at December 31, 2015, €103.3 million at December 31, 2014 and €52.4 million at December 31, 2013;
- a facility from Unicredit Factoring S.p.A., amounting to €111.4 million at December 31, 2015, €88.7 million at December 31, 2014 and €20.0 million at December 31, 2013;
- Limited to 2014, a loan of €40 million provided by Cassa Depositi e Prestiti.

"Other payables" principally refer to collections of managed receivables due to assignors.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

Section 3—Debt securities issued—Item 30

3.1 Debt securities issued: breakdown by type

	At December 31											
	2015				2014				2013			
	Carrying	Fair value			Carrying	Fair value			Carrying	Fair value		
(In thousands of Euro)	amount	Level 1	Level 2	Level 3	amount	Level 1	Level 2	Level 3	amount	Level 1	Level 2	Level 3
A. Securities												
1. Bonds												
1.1 structured												
1.2 other	452,962	302,277	150,000		468,562	299,175	166,650		320,000		320,000	
2 Other securities												
2.1 structured												
2.2 Other												
Total	**452,962**	**302,277**	**150,000**	**—**	**468,562**	**299,175**	**166,650**	**—**	**320,000**	**—**	**320,000**	**—**

On June 12, 2014, BFF successfully completed its first placement of senior unsecured bonds.

The bonds were issued through a private placement reserved for institutional investors for a total face amount of €300 million. These three-year bonds, which have a maturity date of June 12, 2017, are unsecured and unrated.

The bonds are measured at amortized cost using the effective interest method. At December 31, 2015 and 2014, the bonds were valued at €303 million euros and €303.1 million euros, respectively.

Other debt securities, amounting to €150 million, €166.6 million and €320 million at December 31, 2015, 2014 and 2013, respectively, represent securitization transactions outstanding at the end of each year. These securities were issued by:

a) Farmafactoring SPV I s.r.l., as part of a transaction to securitize healthcare receivables structured by Deutsche Bank in October 2012;

b) FF Finance s.r.l., as part of a transaction to securitize healthcare receivables structured by Banca IMI in June 2011 and completed in the first quarter of 2015;

c) Farmafactoring SPV II, as part of a transaction to securitize healthcare receivables structured by BayernLB in the first quarter of 2013 and completed in the fourth quarter of 2014.

Receivables were sold to vehicle companies and not derecognized by the Group, since the sale did not meet the requirements for derecognition, i.e., the transfer of risks and benefits.

Section 4—Financial liabilities held for trading—Item 40

The amounts at December 31, 2014 and 2013 refer to financial derivatives issued by banks. There were no financial liabilities held for trading at December 31, 2015.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

4.1 Financial liabilities held for trading: breakdown by type

	At December 31														
	2015					2014					2013				
		Fair value level					Fair value level					Fair value level			
(In thousands of Euro)	Nominal value	1	2	3	FV*	Nominal value	1	2	3	FV*	Nominal value	1	2	3	FV*
Types of Transactions/ Amounts															
A. Balance sheet liabilities															
1. Due to banks															
2. Due to customers															
3. Debt securities															
3.1 Bonds															
3.1.1 structured															
3.1.2 Other bonds															
3.2 Other securities															
3.2.1 structured															
3.2.2 Other															
Total A	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
B. Derivative instruments															
1. Financial derivatives															
1.1 Trading						30,000		46		46	133,000		548		548
1.2 Related to fair value option															
1.3 Other															
2. Credit derivatives															
2.1 Trading															
2.2 Related to fair value option															
2.3 Other															
Total B	**—**	**—**	**—**	**—**	**—**	**30,000**	**—**	**46**	**—**	**46**	**133,000**	**—**	**548**	**—**	**548**
Total (A+B)	**—**	**—**	**—**	**—**	**—**	**30,000**	**—**	**46**	**—**	**46**	**133,000**	**—**	**548**	**—**	**548**

Key:

FV = fair value

FV* = fair value calculated excluding the changes in value due to the change in the credit class of the issuer as compared with the date of issue

NV = Nominal or notional value

L1 = Level 1, L2 = Level 2, L3 = Level 3

At December 31, 2014 and 2013 the liabilities connected to the fair value of financial derivatives held for trading amounted to €46 thousand and €548 thousand, respectively, and the corresponding notional amounts were €30 million and €133 million, respectively.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

Section 6—Hedging derivatives—Item 60

6.1 Hedging derivatives: breakdown by type of hedge and by level

	At December 31											
	2015				2014				2013			
	Fair value level				Fair value level				Fair value level			
(In thousands of Euro)	1	2	3	NV	1	2	3	NV	1	2	3	NV
Assets/Amounts												
A. Financial derivatives												
1) Fair value												
2) Financial flows						47		55,000				
3) Foreign investment												
B. Credit derivatives												
1) Fair value												
2) Financial flows												
Total	**—**	**—**	**—**	**—**	**—**	**47**	**—**	**55,000**	**—**	**—**	**—**	**—**

At December 31, 2014 the cash flows connected with hedging financial derivatives amounted to €47 thousand and the corresponding notional amount was €55 million. There were no hedging derivatives outstanding at December 31, 2015.

Section 8—Tax liabilities—Item 80

See Section 14 of the asset chapter earlier in these Notes.

Section 10—Other liabilities—Item 100

10.1 Other liabilities: breakdown

	At December 31		
(In thousands of Euro)	2015	2014	2013
Details			
Payables to suppliers	1,553	2,039	1,382
Invoices to be received	7,378	5,959	5,269
Payables to the tax authorities	2,831	643	752
Payables to social security agencies	517	422	345
Payables to employees	3,374	3,021	2,433
Payables for receivables management	—	3	596
Collections pending allocation	26,618	11,263	3,567
Other payables	3,133	7,993	4,955
Accrued liabilities and deferred income	481	1,034	6,071
Total	**45,885**	**32,377**	**25,370**

"Payables to suppliers" and "Invoices to be received" refer to purchases of goods and the performance of services.

"Collections pending allocation" refer to payments received by the closing date of each year but still outstanding since they had not been cleared and recorded by that date.

"Other payables" include portions of collections not yet transferred, mainly to Factors Italia S.p.A.—IFITALIA, in connection with the financing transaction provided on a pool basis.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

Section 11—Provisions for employee severance indemnities—Item 110

11.1 "Provisions for employee severance indemnities: year-over-year changes

(In thousands of Euro)	At December 31 2015	2014	2013
A. Opening balance	**717**	**705**	**696**
B. Increases			
B.1 Provision for the year	322	274	253
B.2 Other changes			
C. Decreases			
C.1 Payments made	(13)	—	(6)
C.2 Other decreases	(143)	(262)	(238)
D. Closing balance	**883**	**717**	**705**
Total	**883**	**717**	**705**

11.2 Other information

The liability recognized in the financial statements at December 31, 2015, 2014 and 2013 represents the present value of the obligation estimated by an independent actuarial firm.

"Other decreases" include differences resulting from actuarial valuation recognized directly in equity. Specifically, IAS 19 no longer allows the option of using the corridor method, which was used to defer actuarial gains and losses, requiring instead their immediate recognition in comprehensive income for the year to which they are attributable.

The results of the actuarial measurement reflect the impact of the provisions of Law No. 296/2006 and the computation, IAS 19 purposes, refers solely to vested employee severance benefits not transferred to supplementary pension funds or to the INPS Treasury Fund. For details about the actuarial assumptions used to determine the liability at December 31, 2015, 2014 and 2013 reference should be made to the table in Section 12.3 below.

Section 12—Provisions for risks and charges—Item 120

12.1 Provisions for risks and charges: breakdown

(In thousands of Euro)	At December 31 2015	2014	2013
Items/Amounts			
1. Pensions funds	4,830	3,952	2,672
2. Other provisions			
2.1 Legal disputes			
2.2 Personnel expenses			
2.3 Other	365	364	705
Total	**5,195**	**4,316**	**3,377**

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

12.2 Provisions for risks and charges: year-over-year changes

(In thousands of Euro)	Pensions funds	Other provisions
A. Opening balance at January 2013	**2,681**	**602**
B. Increases		
B.1 Provision for the year	650	103
B.2 Change due to passing of time		
B.3 Variation due to change in the discount rate		
B.4 Other changes		
C. Decreases		
C.1 Use during the year	(639)	
C.2 Variation due to change in the Discount rate		
C.3 Other changes	(20)	
D. Closing balance at December 31, 2013	**2,672**	**705**
A. Opening balance at January 2014	**2,672**	**705**
B. Increases		
B.1 Provision for the year	1,280	
B.2 Change due to passing of time		
B.3 Variation due to change in the discount rate		
B.4 Other changes		
C. Decreases		
C.1 Use during the year		
C.2 Variation due to change in the discount rate		
C.3 Other changes		(341)
D. Closing balance at December 31, 2014	**3,952**	**364**
A. Opening balance at January 2015	**3,952**	**364**
B. Increases		
B.1 Provision for the year	940	1
B.2 Change due to passing of time		
B.3 Variation due to change in the discount rate		
B.4 Other changes		
C. Decreases		
C.1 Use during the year	(62)	
C.2 Variation due to change in the discount rate		
C.3 Other changes		
D. Closing balance at December 31, 2015	**4,830**	**365**

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

12.3 Defined-benefit pension plans

The pension plans refer to employee benefits payable after the end of the employment relationship and the obligations arising from non-compete agreements executed with managers of Group companies.

The accrual for each year refers to the following

- for €335 thousand, €526 thousand and €91 thousand in 2015, 2014 and 2013, respectively, to non-compete agreements executed with managers of Group companies;
- for €605 thousand, €754 thousand and €559 thousand in 2015, 2014 and 2013, respectively, to the deferral of a portion of the annual bonuses for the first and second level staff and other management staff.

Under a non-compete agreement the employee agrees that, after the end of the employment relationship, he/she will not to engage, for any reason whatsoever, in any activities in direct competition with that of BFF. The commitment is for a three-year period and starts from the date that the employment relationship is ended. As consideration for this commitment, BFF agrees to pay a specific amount to the employee in semiannual installments.

Upon its transformation into a bank, BFF decided to reassess its short/medium-term variable compensation systems in order to make them fully compliant with the relevant regulations published by the Bank of Italy. The features of the new system include medium-term restrictions, according to which, starting in 2013, 30% of the annual bonus will be paid after three years, provided BFF achieves specific targets relating to its profitability, the regulatory capital requirements established by existing regulations, and the employee's continued employment at the company. In accordance with the provisions of IAS 19, the corresponding accruals were quantified based on an actuarial calculation performed externally by a specialized firm.

BFF's obligations were computed using the "Projected Unit Credit Method," which treats each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to compute the final obligation, in accordance with Paragraphs 64 and 65 of IAS 19. This is an actuarial method that entails a valuation aimed at determining the average present value of BFF's obligations.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

The main economic and demographic assumptions used for actuarial valuation purposes at December 31, 2015, 2014 and 2013 are detailed below:

Main actuarial assumptions	At December 31 2015	2014	2013
Mortality table	Mortality tables RG48 published by the "Ragioneria Generale dello Stato"	Sim/f 2005	Sim/f 2005
Inflation rate	1,50% per il 2016 1,80% per il 2017 1,70% per il 2018 1,60% per il 2019 2,00% dal 2020 in poi	1,80%	2,00%
Discount rate	2,30%	4,30%	4,50%
The relative resignation rate—manager	0,50%	0,50%	0,50%
The relative resignation rate—junior manager	3,00%	3,00%	3,00%
The relative resignation rate—clerk	3,00%	3,00%	3,00%
Advance request rate—manager	1,00%	1,00%	1,00%
Advance request rate—management level employee	2,50%	2,50%	2,50%
Advance request rate—clerk	2,50%	2,50%	2,50%

Section 15—Equity attributable to owners of the parent—Items 140, 160, 170, 180, 190, 200 and 220

15.1 "Share capital" and "Own shares": breakdown

At December 31, 2015, 2014 and 2013, the share capital was comprised of 1,700,000 common shares, par value €77.0 each, for a total amount of €130,900 thousands.

15.2 Share capital—Number of shares of the parent company: year-over-year changes

(In thousands of Euro) Items/Types	Shares Ordinary	Other
A. Shares at beginning of the year 2012		
—Fully paid-in	1,700,000	
—Not fully paid-in		

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(In thousands of Euro)	Shares Ordinary	Shares Other
A.1 Own shares (−)		
A.2 Shares in circulation: opening balance 2012	**1,700,000**	
B. Increases		
B.1 New issues		
—A Payment:		
—Business combinations		
—Bond conversions		
—Exercise of warrants		
—Other		
—A free:		
—To employees		
—To directors		
—Other		
B.2 Treasury Share Sales		
B.3 Other changes		
C. Decreases		
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Sale of company transactions		
C.4 Other changes		
D. Shares outstanding: Closing balance 2013	**1,700,000**	
D.1 Treasury shares (+)		
D.2 Shares outstanding at end of year		
—Fully paid	**1,700,000**	
—Not fully paid		
A. Shares at beginning of the year 2013		
—Fully paid	1,700,000	
—Not fully paid		
A.1 Own shares (−)		
A.2 Shares in circulation: opening balance 2013	**1,700,000**	
B. Increases		
B.1 New issues		
—A Payment:		
—Business combinations		
—Bond conversions		
—Exercise of warrants		
—Other		
—A free:		
—To employees		
—To directors		
—Other		
B.2 Treasury Share Sales		
B.3 Other changes		
C. Decreases		
C.1 Cancellation		

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(In thousands of Euro)	Shares Ordinary	Shares Other
C.2 Purchase of treasury shares		
C.3 Sale of company transactions		
C.4 Other changes		
D. Shares outstanding: Closing balance 2013	**1,700,000**	
D.1 Treasury shares (+)		
D.2 Shares outstanding at end of year		
—Fully paid	**1,700,000**	
—Not fully paid		
A. Shares at beginning of the year 2014		
—Fully paid	1,700,000	
—Not fully paid		
A.1 Own shares (−)		
A.2 Shares in circulation: opening balance 2014	**1,700,000**	
B. Increases		
B.1 New issues		
—A Payment:		
—Business combinations		
—Bond conversions		
—Exercise of warrants		
—Other		
—A free:		
—To employees		
—To directors		
—Other		
B.2 Treasury Share Sales		
B.3 Other changes		
C. Decreases		
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Sale of company transactions		
C.4 Other changes		
D. Shares outstanding: Closing balance 2014	**1,700,000**	
D.1 Treasury shares (+)		
D.2 Shares outstanding at end of year		
—Fully paid	1,700,000	
—Not fully paid		

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

15.4 Earnings reserves: other information

In accordance with the provisions of Article 2427, Section 7-*bis,* of the Italian Civil Code, the tables that follow provide a breakdown of the individual components of shareholder's equity according to their utilization option, the amount available for distribution and past utilization in previous years.

(In thousands of Euro)	At December 31, 2015	Possibility of use[(a)]	Amount available	Summary of use in the last three years: For absorption of losses	Summary of use in the last three years: For other reasons
Share capital	**130,900**				
Reserves	**127,409**		**101,019**		
—Legal reserve	26,390	B			
—Extraordinary reserve	89	*A,B,C*	89		
—Retained earnings	100,930	*A,B,C*	100,930		[(*)]20,400
Valuation reserves	**4,184**		**4,184**		
—Available-for-sale securities	481	*A,B,C*	481		
—Other	3,703	*A,B,C*	3,703		
Total share capital and reserves	**262,493**		**105,203**	**—**	**20,400**

(a) Possibility of use: A= for share capital increases; B= for absorption of losses; C= for distribution to shareholders.

(*) In the previous three years, "Retained earnings" was used to increase "Share Capital", which rose from Euro 110,500 thousand in 2011 to Euro 130,900 thousand in 2014.

(In thousands of Euro)	At December 31, 2014	Possibility of use[(a)]	Amount available	Summary of use in the last three years: For absorption of losses	Summary of use in the last three years: For absorption of losses
Share capital	**130,900**				
Reserves	**51,481**				
—Legal reserve	21,489	B			
—Extraordinary reserve	89	*A,B,C*	89		
—Retained earnings	29,903	*A,B,C*	29,903		[(*)]25,500
Valuation reserves	**4,035**				
—Available-for-sale securities	238	*A,B,C*	238		
—Other	3,797	*A,B,C*	3,797		
Total share capital and reserves	**186,416**		**34,028**		**25,500**

(a) Possibility of use: A= for share capital increases; B= for absorption of losses; C= for distribution to shareholders.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(*) In the previous three years, "Retained earnings" was used to increase "Share Capital", which rose from Euro 105,400 thousand in 2010 to Euro 130,900 thousand in 2013.

(In thousands of Euro)	At December 31, 2013	Possibility of use[(a)]	Amount available	Summary of use in the last three years: For absorption of losses	Summary of use in the last three years: For absorption of losses
Share capital	**130,900**				
Reserves	**48,977**		**29,934**		
—Legal reserve	19,044	B			
—Extraordinary reserve	88	*A,B,C*	88		
—Retained earnings	29,845	*A,B,C*	29,846		(*)34,000
Valuation reserves	**4,219**		**4,219**		
—Available-for-sale securities	396	*A,B,C*	396		
—Other	3,823	*A,B,C*	3,823		
Total share capital and reserves	**184,096**		**34,153**	**—**	**34,000**

(a) Possibility of use: A= for share capital increases; B= for absorption of losses; C= for distribution to shareholders.

(*) In the previous three years, "Retained earnings" was used to increase "Share Capital", which rose from Euro 96,900 thousand in 2009 to Euro 130,900 thousand in 2012.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

The following table sets forth the changes that occurred in the reserves during the three-year period:

(In thousands of Euro)	Legal	Retained earnings	Other extraordinary	Total
A. Opening balances 2013	**16,222**	**30,031**	**88**	**46,341**
B. Increases				
B.1 Attribution of profits	2,822	77		2,899
B.2 Other changes				
C. Decreases				
C.1 Uses				
—Absorption of losses				
—Distribution				
—Transfer to share capital				
C.2 Other decreases		(263)		(263)
D. Closing balance 2013	**19,044**	**29,845**	**88**	**48,977**
A. Opening balances 2014	**19,044**	**29,845**	**88**	**48,977**
B. Increases				
B.1 Attribution of profits	2,445	58		2,503
B.2 Other changes			1	1
C. Decreases				
C.1 Uses				
—Absorption of losses				
—Distribution				
—Transfer to share capital				
C.2 Other decreases				—
D. Closing balance 2014	**21,489**	**29,903**	**89**	**51,481**
A. Opening balances 2015	**21,489**	**29,903**	**89**	**51,481**
B. Increases				
B.1 Attribution of profits	4,901	71,027		75,928
B.2 Other changes				
C. Decreases				
C.1 Uses				
—Absorption of losses				
—Distribution				
—Transfer to share capital				
C.2 Other decreases				
D. Closing balance 2015	**26,390**	**100,930**	**89**	**127,409**

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

Legal reserve

The increase of €4,901 thousand at December 31, 2015, compared with the previous year, is due to the appropriation of the profit for the year ended December 31, 2014 reported by Banca Farmafactoring and Farmafactoring España, in accordance with the resolutions approved by the respective Ordinary Shareholders' Meetings on March 25, 2015 and February 13, 2015.

The increase of €2,445 thousand at December 31, 2014, compared with the previous year, is due to the appropriation of the profit for the year ended December 31, 2013, in accordance with the resolution approved by BFF's Ordinary Shareholders' Meetings on May 6, 2014.

Retained earnings

The increase of €71,027 thousand at December 31, 2015 is due to the appropriation of the profit for the year ended December 31, 2014 reported by Banca Farmafactoring and Farmafactoring España, in accordance with the resolutions approved by the respective Ordinary Shareholders' Meetings on March 25, 2015 and February 13, 2015.

The increase of €58 thousand at December 31, 2014, compared with the previous year, is due to the appropriation of the profit for the year ended December 31, 2013, in accordance with the resolution approved by BFF's Ordinary Shareholders' Meetings on May 6, 2014.

Valuation reserves

"Valuation reserves" totaled €4,184 thousand at December 31, 2015, €4,035 thousand at December 31, 2014 and €4,219 thousand at December 31, 2013.

The increase of €149 thousand, compared with December 31, 2014, reflects primarily a gain in the reserves for available-for-sale financial assets.

The decrease of €184 thousand between 2014 and 2013, mainly refers to the reserves for AFS securities held in portfolio and the reserve for hedging derivatives.

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

Other information

1. Guarantees provided and commitments

(In thousands of Euro)	At December 31 2015	2014	2013
Transactions			
1) Financial guarantees provided to	—	22	22
a) Banks		22	22
b) Customers			
2) Commercial guarantees provided to			
a) Banks			
b) Customers			
3) Irrevocable commitments to disburse funds	117,461	11,280	—
a) Banks	—	—	—
i) Certain use			
ii) Uncertain use			
b) Customers	117,461	11,280	—
i) Certain use			
ii) Uncertain use	117,461	11,280	
4) Underlying commitments for credit derivatives: sale of protection			
5) Assets used to guarantee obligations of third parties			
6) Other commitments			
Total	**117,461**	**11,302**	**22**

"Financial guarantees provided to Banks" includes the commitment undertaken towards Fondo Interbancario di Tutela dei Depositi, amounting to €22 thousand at December 31, 2014 and €22 thousand at December 31, 2013.

As for December 31, 2015 and 2014, commitments the use of which is uncertain, amounting €117,461 thousand and €11,280 thousand, respectively, refer to commitments towards customer to purchase receivables that have already been identified.

2. Assets pledged to secure Group liabilities and commitments

(In thousands of Euro)	At December 31 2015	2014	2013
Portfolios			
1. Held-for-Trading Financial Assets			
2. Financial assets valued at fair value			
3. Available-for-sale financial assets	326,029	289,717	15,903
4. Held-to-maturity financial assets	822,350	744,262	
5. Loans to banks			
6. Receivables and loans	651,515	495,260	
7. Property, plant and equipment			
Total	**1,799,894**	**1,529,239**	**15,903**

"Available-for-sale financial assets" amounting to €326,029 thousand at December 31, 2015, €289,717 thousand at December 31, 2014 and €15,903 thousand at December 31, 2013, consist of

PART B—INFORMATION ABOUT THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

government securities used as collateral in e-MID transactions; "Held-to-maturity financial assets" at December 31, 2015 and 2014 were used as collateral in transactions with the ECB and in reverse repos.

At December 31, 2015, "Receivables and loans" included, for €233,484 thousands, receivables sold but not deleted as part of the current securitization transaction and, for €418,031 thousands, receivables pledged to secure financing transactions with Ifitalia and Unicredit Factoring.

5. Asset management and brokerage on behalf of others

(In thousands of Euro)	At December 31		
	2015	2014	2013
Type of services			
1. Execution of orders on behalf of customers	—	—	—
a) Purchases			
1. Settled			
2. Unsettled			
b) Sales			
1. Settled			
2. Unsettled			
2. Portfolio management	—	—	—
a) Individual			
b) Collective			
3. Custody and administration of securities	**1,218,500**	**1,296,000**	**180,000**
a) Third party securities on deposit: relating to custodian bank activities (excluding portfolio management)			
1. Securities issued by the bank that prepares the financial statements			
2 Other securities			
b) Third party securities on deposit (excluding portfolio management): other			
1. Securities issued by the bank that prepares the financial statements			
2 Other securities			
c) Third party securities deposited with third parties			
d) Owned securities deposited with third parties	1,218,500	1,296,000	180,000
4. Other operations	—	—	—

The amount refers to the face value of securities owned by the Group, classified in the AFS and HTM portfolios.

PART C—INFORMATION ABOUT THE CONSOLIDATED INCOME STATEMENT

Section 1—Interest income—Items 10 and 20

1.1 Interest income and similar revenues: breakdown

(In thousands of Euro)	Year ended December 31, 2015			
Items/Various types	**Debt securities**	**Financing**	**Other operations**	**Total**
1. Held-for-Trading Financial Assets				
2. Financial assets valued at fair value				
3. Available-for-sale financial assets	1,322			1,322
4. Held-to-maturity financial assets	4,526			4,526
5. Loans to banks		144		144
6. Receivables and loans		155,952		155,952
7. Hedging derivatives				
8. Other assets			2	2
Total	**5,848**	**156,096**	**2**	**161,946**

(In thousands of Euro)	Year ended December 31, 2014			
Items/Various types	**Debt securities**	**Financing**	**Other operations**	**Total**
1. Held-for-Trading Financial Assets				
2. Financial assets valued at fair value				
3. Available-for-sale financial assets	941			941
4. Held-to-maturity financial assets	3,118			3,118
5. Loans to banks		987		987
6. Receivables and loans		73,743	173,762	247,505
7. Hedging derivatives				
8. Other assets				
Total	**4,059**	**74,730**	**173,762**	**252,551**

(In thousands of Euro)	Year ended December 31, 2013			
Items/Various types	**Debt securities**	**Financing**	**Other operations**	**Total**
1. Held-for-Trading Financial Assets				
2. Financial assets valued at fair value				
3. Available-for-sale financial assets	1,548			1,548
4. Held-to-maturity financial assets				
5. Loans to banks		982	578	1,560
6. Receivables and loans		100,331	51,202	151,533
7. Hedging derivatives				
8. Other assets			2	2
Total	**1,548**	**101,313**	**51,782**	**154,643**

1.3 Interest income and similar revenues: other information

Interest income on "Available-for-sale financial assets" of €1,322 thousand in 2015, €941 thousand in 2014 and €1,548 thousand in 2013, was generated by government securities purchased by BFF. Interest income is recognized by the amortized cost method, according to which the income generated by such assets is recognized in relation to the return deriving from the expected cash flows.

PART C—INFORMATION ABOUT THE CONSOLIDATED INCOME STATEMENT (Continued)

With regard to 2015 and 2014, interest income on "Held-for-Trading Financial Assets," amounting to €4,526 thousand and €3,118 thousand, respectively, was generated by government securities purchased by BFF to hedge the liquidity risk and to optimize the cost of money.

Interest income on "Receivables with banks" refers to credit balances in checking accounts with banks.

Interest income on "Due from customers," amounting to €155,952 thousand in 2015, €73,743 thousand in 2014 and €100,331 thousand in 2013, consists largely of fees and commissions charged to the assignors for the purchase of receivables on a non-recourse basis.

The recognition principles applied for these fees and commissions reflects the amortized cost valuation criterion used for receivables acquired on a non-recourse basis, as required by IAS 39, according to which the income generated by such assets is recognized in relation to the return deriving from the expected cash flows.

At December 31, 2014 and 2013, interest income on "Due from customers" from other transactions included, respectively, €60,051 thousand and €50,976 thousand for late-payment interest collected each year. The amount for 2014 also included €113,396 thousand in income deriving from the change in the method used to estimate the provision for late-payment interest and the difference on maturity commissions caused by the change in estimate. Until December 31, 2013, invoiced receivables for late-payment interest were completely written off through a provision recognized as a deduction from the corresponding asset and late-payment interest accrued but not yet invoiced to the debtor was not recognized. When the late-payment interest was actually collected, the write-off was reversed and the late-payment interest was credited to the income statement based on the percentage of recovery effectively realized. This approach did not allow an accurate matching of costs and revenues.

In 2014, the Group acquired analysis tools that enable it to obtain a time series of data such as to permit the computation of a reliable estimate of the amount of late-payment interest that will likely be collected and the collection time. Accordingly, beginning with the financial statements for the year ended December 31, 2014, the companies of the Group applied to receivables for late-payment interest the writedown percentage determined in accordance with the abovementioned analyses. The weighted average trend of the collection percentages for the years included in the time series considered was greater than 40% and, consequently, this percentage was conservatively used to estimate the amount of late-payment interest that will be collected in the future, which was then recognized as a receivable in accordance with the amortized cost criterion, with the time of collection estimated at 1,800 days from the due date of the purchased invoice.

With regard to the receivables purchased by Farmafactoring España, the average recovery percentage for late-payment interest observed tends to be equal to 100% and, on average, is collected in less time than receivables from the Italian National Healthcare System. However, since the sample observed was relatively small, a conservative decision was made to opt for the utilization of the same recovery rate of 40% and the same collection time of 1,800 days as used for BFF.

The change in the method of estimating the provision for late-payment interest entailed the recognition, in 2014, of the effects of this change both on the receivables recognized in 2014 and the receivables recorded in previous years, which resulted in the recognition of the abovementioned nonrecurring income. Starting in 2015, the income statement reflects exclusively the recognition of late-payment interest on an accrual basis for each individual reporting year and the recognition of a gain, if the amount collected is larger than the estimated amount, or a loss, if the collection is deferred.

PART C—INFORMATION ABOUT THE CONSOLIDATED INCOME STATEMENT (Continued)

1.4 Interest expense and similar expenses

(In thousands of Euro)	Year ended December 31, 2015			
	Liabilities	Securities	Other operations	Total
Items/Various types				
1. Due to central banks	114			114
2. Bank loans and borrowings	7,574			7,574
3. Amounts due to customers	8,570		3,280	11,850
4. Debt securities issued		9,300		9,300
5. Financial liabilities held for trading			60	60
6. Financial liabilities at fair value through profit or loss				
7. Other liabilities and provisions				
8. Hedging derivatives				
Total	**16,258**	**9,300**	**3,340**	**28,898**

(In thousands of Euro)	Year ended December 31, 2014			
	Liabilities	Securities	Other operations	Total
Items/Various types				
1. Due to central banks	223			223
2. Bank loans and borrowings	24,398			24,398
3. Amounts due to customers	3,491		10,521	14,012
4. Debt securities issued		5,110		5,110
5. Financial liabilities held for trading			461	461
6. Financial liabilities at fair value through profit or loss				
7. Other liabilities and provisions			36	36
8. Hedging derivatives				
Total	**28,112**	**5,110**	**11,018**	**44,240**

(In thousands of Euro)	Year ended December 31, 2013			
	Liabilities	Securities	Other operations	Total
Items/Various types				
1. Due to central banks				
2. Bank loans and borrowings	33,329		74	33,403
3. Amounts due to customers	1,849		16,783	18,632
4. Debt securities issued				
5. Financial liabilities held for trading			1,609	1,609
6. Financial liabilities at fair value through profit or loss				
7. Other liabilities and provisions				
8. Hedging derivatives				
Total	**35,178**	**—**	**18,466**	**53,644**

The interest expense component “Due to banks—Loans” refers to loans received from the banking system.

Interest expense on “Amounts due to customers—Loans” mainly refers to loans secured from factoring companies and Cassa Depositi e Prestiti, as well as amounts due to assignors due to the different currency in which amounts collected are credited to the respective bank current accounts, and, for the years ended December 31, 2015 and 2014, €8,043 thousand and €510 thousand, respectively, to interest expense relating to online deposit accounts, which included, exclusively in 2015, €81 thousand related to the “Cuenta facto” launched in August 2015 by BFF’s Spanish subsidiary.

PART C—INFORMATION ABOUT THE CONSOLIDATED INCOME STATEMENT (Continued)

Interest expense on "Amounts due to customers—Other transactions" includes expenses on securitization transactions.

Interest expense on "Securities issued" for the year ended December 31, 2014 refers to expenses incurred for the placement of BFF's three-year bonds, in the amount of €300 million, issued in June 2014.

In the year ended December 31, 2015, interest expense decreased by €15,342 thousand compared with the previous year. A reduction in the cost of money, the renegotiation of certain lines of credit and the diversification of funding sources account for most of this reduction.

Section 2—Fees and commissions—Items 40 and 50

2.1 Fee and commission income: breakdown

(In thousands of Euro)	Financial year ended December 31		
	2015	2014	2013
Types of services/Amounts			
a) Guarantees provided			
b) Credit derivatives			
c) Management, brokerage and consulting services:			
1. Securities trading			
2. Currency trading			
3. Portfolio management			
3.1. Individual			
3.2. Collective			
4. Custody and administration of securities			
5. Custodian bank			
6. Placement of securities			
7. Receipt and transmission of orders			
8. Advisory services			
8.1 related to investments			
8.2 related to financial structure			
9. Distribution of third-party services			
9.1. Portfolio management			
9.1.1. Individual			
9.1.2. Collective			
9.2. Insurance products			
9.3 Other products			
d) Collection and payment services	8,321	9,301	10,251
e) Securitization servicing			
f) Factoring			
g) Tax collection services			
h) Management of multilateral trading facilities			
i) Management of current accounts			
j) Other services	68	143	21
Total	**8,389**	**9,444**	**10,272**

PART C—INFORMATION ABOUT THE CONSOLIDATED INCOME STATEMENT (Continued)

2.2 Fee and commission expense: breakdown

(In thousands of Euro)	Financial year ended December 31		
	2015	2014	2013
Types of services/Amounts			
a) Guarantees received			10
b) Credit derivatives			
c) Management and brokerage services:			
1. Securities trading			
2. Currency trading			
3. Portfolio management:			
3.1 own portfolio			
3.2 third-party portfolio			
4. Custody and administration of securities			
5. Placement of financial instruments			
6. Off-site distribution of financial instruments, Products and services			
d) Collection and payment services			
e) Other services	446	1,205	1,098
Total	**446**	**1,205**	**1,108**

Section 4—Gains and losses on financial assets and liabilities held for trading—Item 80

4.1 Gains and losses on financial assets and liabilities held for trading: breakdown

(In thousands of Euro)	Year ended December 31, 2015				
	Gains (A)	Gains on trading (B)	Losses (C)	Losses on trading (D)	Net result (A+B)−(C+D)
Items/Income components					
1. Financial assets held for trading					
1.1 Debt securities					
1.2 Equity securities					
1.3 Units in investment funds					
1.4 Loans					
1.5 Other					
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Amounts due					
2.3 Other					
3. Financial assets and liabilities: exchange differences					
4. Derivative financial instruments		46			46
4.1 Financial derivatives:		46			46
—On debt securities and interest rates		46			46
—On equity instruments and stock indexes					
—On currency and gold					
—Other					
4.2 Credit derivatives					
Total	**—**	**46**	**—**	**—**	**46**

PART C—INFORMATION ABOUT THE CONSOLIDATED INCOME STATEMENT (Continued)

(In thousands of Euro)	Year ended December 31, 2014				
	Gains (A)	Gains on trading (B)	Losses (C)	Losses on trading (D)	Net result (A+B) − (C+D)
Items/Income components					
1. Financial assets held for trading					
1.1 Debt securities					
1.2 Equity securities					
1.3 Units in investment funds					
1.4 Loans					
1.5 Other					
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Amounts due					
2.3 Other					
3. Financial assets and liabilities: exchange differences					
4. Derivative financial instruments					
4.1 Financial derivatives:					
—On debt securities and interest rates		497			497
—On equity instruments and stock indexes					
—On currency and gold					
—Other					
4.2 Credit derivatives					
Total		**497**			**497**

(In thousands of Euro)	Year ended December 31, 2013				
	Gains (A)	Gains on trading (B)	Losses (C)	Losses on trading (D)	Net result (A+B) − (C+D)
Items/Income components					
1. Financial assets held for trading					
1.1 Debt securities					
1.2 Equity securities					
1.3 Units in investment funds					
1.4 Loans					
1.5 Other					
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Amounts due					
2.3 Other					
3. Financial assets and liabilities: exchange differences					
4. Derivative financial instruments					
4.1 Financial derivatives:					
—On debt securities and interest rates		1,701			1,701
—On equity instruments and stock indexes					
—On currency and gold					
—Other					
4.2 Credit derivatives					
Total	**—**	**1,701**	**—**	**—**	**1,701**

PART C—INFORMATION ABOUT THE CONSOLIDATED INCOME STATEMENT (Continued)

Reconciliation of changes in derivatives

(In thousands of Euro)	Carrying amount	2015 over 2014	2014 over 2013	2013 over 2012
Held-for-Trading Financial Assets				
Value at December 31, 2015	—			
Value at December 31, 2014	—		(5)	
Value at December 31, 2013	5			5
Value at December 31, 2012	—			
Held-for-trading financial liabilities				
Value at December 31, 2015	—	46		
Value at December 31, 2014	46		(502)	
Value at December 31, 2013	548			(1,696)
Value at December 31, 2012	2,244			
Net income from trading activities		**46**	**(507)**	**(1,691)**

Section 5—Fair value adjustment in hedging accounting—Item 90

5.1 Fair value adjustment in hedging accounting: breakdown

(In thousands of Euro)	At December 31 2015	2014	2013
Income components			
A. Income from:			
A.1 Fair value hedge derivatives			
A.2 Hedged financial assets (fair value)			
A.3 Hedged financial liabilities (fair value)			
A.4 Financial derivatives hedging cash flows			
A.5 Assets and liabilities in foreign currency			
Total income from hedging activities (A)			
B. Charges related to:			
B.1 Fair value hedges			
B.2 Hedged financial assets (fair value)			
B.3 Hedged financial liabilities (fair value)			
B.4 Financial derivatives hedging cash flows	23	7	
B.5 Assets and liabilities in foreign currency			
Total charges from hedging activities (B)	23	7	—
C. Net hedging result (A − B)	(23)	(7)	—

This item is used to recognize the “ineffective portion” of cash flow hedges. The Group uses interest rate swaps (IRS) to hedge the rates applied to its funding sources.

PART C—INFORMATION ABOUT THE CONSOLIDATED INCOME STATEMENT (Continued)

Section 6—Gains (losses) on disposals and repurchases—Item 100

6.1 Gains (losses) on disposals and repurchases: breakdown

(In thousands of Euro)	Year ended December 31, 2015			Year ended December 31, 2014			Year ended December 31, 2013		
	Profit	Loss	Net Results	Profit	Loss	Net Results	Profit	Loss	Net Results
Income components									
Financial assets									
1. Loans to banks									
2. Receivables and loans									
3. Available-for-sale financial assets	872		872						
3.1 Debt securities	872		872	953		953			
3.2 Equity securities									
3.3 Units in investment funds									
3.4 Loans									
4. Held-to-maturity financial assets									
Total assets	**872**	**—**	**872**	**953**	**—**	**953**	**—**	**—**	**—**
Financial liabilities									
1. Bank loans and borrowings									
2. Amounts due to customers									
3. Debt securities issued									
Total liabilities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**

This amount refers to the gain on the sale of government securities classified in the AFS portfolio.

Section 8—Net losses/recoveries on impairment—Item 130

8.1 Net losses/recoveries on impairment of receivables: breakdown

(In thousands of Euro)	Value adjustments			Write backs				Total at December 31, 2015
	Specific			Specific		Portfolio		
	Write backs	Other	Portfolio.	A	B	A	B	
Transactions/ income components								
A. Due from banks								
—financing								
—debt securities								
B. Receivables and loans:								
Deteriorated loans purchased								
—financing								
—debt securities								
Other receivables								
—financing	(75)	(156)	(1,143)		248			(1,126)
—debt securities								
C. Total	**(75)**	**(156)**	**(1,143)**	**—**	**248**	**—**	**—**	**(1,126)**

Key:

A = From interest

B = Other write backs

PART C—INFORMATION ABOUT THE CONSOLIDATED INCOME STATEMENT (Continued)

	Value adjustments			Write backs				
	Specific			Specific		Portfolio		
(In thousands of Euro)	Write backs	Other	Portfolio.	A	B	A	B	Total at December 31, 2014
Transactions/ income components								
A. Due from banks								
—financing								
—debt securities								
B. Receivables and loans:								
Deteriorated loans purchased								
—financing								
—debt securities								
Other receivables								
—financing	(260)	(123)	(63)		489			**43**
—debt securities								
C. Total	**(260)**	**(123)**	**(63)**	**—**	**489**	**—**	**—**	**43**

Key:

A = From interest

B = Other write backs

	Value adjustments			Write backs				
	Specific			Specific		Portfolio		
(In thousands of Euro)	Write backs	Other	Portfolio.	A	B	A	B	Total at December 31, 2013
Transactions/ income components								
A. Due from banks								
—financing								
—debt securities								
B. Receivables and loans:								
Deteriorated loans purchased								
—financing								
—debt securities								
Other receivables								
—financing	(186)	(775)	(217)		42			**(1,136)**
—debt securities								
C. Total	**(186)**	**(775)**	**(217)**	**—**	**42**	**—**	**—**	**(1,136)**

Key:

A = From interest

B = Other write backs

PART C—INFORMATION ABOUT THE CONSOLIDATED INCOME STATEMENT (Continued)

Section 11—Administrative costs—Item 180

11.1 Personnel costs: breakdown

(In thousands of Euro)	Financial year ended December 31		
	2015	2014	2013
Type of expense/Sectors			
1. Employees	**16,446**	**12,956**	**11,181**
a) wages and salaries	11,711	9,285	7,857
b) social security contributions	3,163	2,472	2,231
c) severance indemnities			
d) pension expenses			
e) provision for severance indemnities	322	274	253
f) provision for pension fund and similar obligations:			
—defined contribution			
—defined benefit		98	71
g) payments to external supplementary pension funds:			
—defined contribution	157		
—defined benefit			
h) costs of share-based payment agreements			
i) other personnel benefits	1,093	827	769
2. Other personnel	**304**	**75**	**33**
3. Directors and Auditors	**1,726**	**1,797**	**2,013**
4. Staff on leave			
Total	**18,476**	**14,828**	**13,227**

11.2 Average number of employees by category

Employees

(In thousands of Euro)	Average number		
	2015	2014	2013
Category			
Managers	12	9	8
Junior managers	55	48	35
Clerks	117	76	67
Total	**184**	**133**	**110**
Other personnel (internships)	2	9	2

Since the Spanish labor contract for the banking sector is not comparable with the Italian contract, the employees of Farmafactoring España S.A. were conventionally divided into the three categories of Executives, Supervisors and Staff.

11.4 Other employee benefits

The main components of this item, which amounted to €1,093 thousand at December 31, 2015, €827 thousand at December 31, 2014 and €769 thousand at December 31, 2013, include expenses for training, insurance for employees and meal vouchers.

PART C—INFORMATION ABOUT THE CONSOLIDATED INCOME STATEMENT (Continued)

11.5 Other administrative expenses: breakdown

	Financial year ended December 31		
(In thousands of Euro)	**2015**	**2014**	**2013**
Detail			
Legal fees	3,172	4,444	4,101
Data processing services	2,061	1,498	1,096
External credit management services	1,248	990	973
Supervisory board fees	51	129	83
Legal fees for loans managed	815	1,026	928
Notary fees	574	387	390
Notary fees to be recovered	188	67	100
Entertainment expenses and donations	859	775	827
Maintenance fees	802	728	875
Non-deductible VAT	3,081	2,194	1,570
Other taxes	889	239	186
Consultancy fees	6,041	3,966	2,677
Head office operating expenses	1,364	959	687
Resolution Fund and FITD	1,603	—	—
Other expenses	4,343	3,724	2,558
Total	**27,091**	**21,126**	**17,051**

This item includes legal fees for €815 thousand in 2015, €1,026 thousand in 2014 and €928 thousand in 2013 and notary's fees for €188 thousand in 2015, €67 thousand in 2014 and €100 thousand in 2013, which were incurred on behalf of the assignor companies and were fully recovered and included in other operating income.

The amount for the year ended December 31, 2015 includes costs totaling €1.636 thousand incurred in connection with the IPO process, which was interrupted in 2015 due to a change in BFF's controlling shareholder.

In addition, in the year ended December 31, 2015, other administrative expenses included the contributions provided to the Ordinary Resolution Fund (€368 thousand), the Extraordinary Resolution Fund (€1,101 thousand), Interbank Deposit Protection Fund (€134 thousand), for a total of €1,603 thousand. These amounts were accounted for as administrative expenses, as required by the Bank of Italy memorandum dated January 16, 2016 "Contributions to resolution funds: treatment in the financial statements and in the disclosures to regulatory authorities,"

A breakdown of the main components of the item "Other expenses" in the preceding table is provided below:

	Financial year ended December 31		
(In thousands of euros)	**2015**	**2014**	**2013**
External company of internal audits remuneration	42	72	66
External data processing companies remuneration	2,140	1,559	1,151
External collection companies remuneration	1,150	984	973
External organization company remuneration		198	165
Total	**3,332**	**2,813**	**2,355**

PART C—INFORMATION ABOUT THE CONSOLIDATED INCOME STATEMENT (Continued)

Section 12—Net provisions for risks and charges—Item 190

12.1 Net provisions for risks and charges: breakdown

A breakdown of the accrual to the provision and a comparison with the previous year is provided below:

(In thousands of Euro)	Financial year ended December 31 2015	2014	2013
Detail			
Pension fund and similar obligations	877	1,280	630
Other provisions	2	—	103
Total	**879**	**1,280**	**733**

The accrual to the "Pension fund and similar obligations" refers to deferred employee benefits.

Section 13—Impairment/write-backs on property, plant and equipment—Item 200

13.1 Impairment/write-backs on property, plant and equipment: breakdown

(In thousands of Euro)	Year ended December 31, 2015 Amortization (a)	Impairment adjustments (b)	Write backs (c)	Net result (a+b+c)
Asset/cost component				
A. Property, plant and equipment				
A.1 Owned				
—for business purposes	1,115			1,115
—for investment purposes				
A.2 Purchases under finance leases				
—for business purposes				
—for investment purposes				
Total	**1,115**	**—**	**—**	**1,115**

(In thousands of Euro)	Year ended December 31, 2014 Amortization (a)	Impairment adjustments (b)	Write backs (c)	Net result (a+b+c)
Asset/cost component				
A. Property, plant and equipment				
A.1 Owned				
—for business purposes	1,053			1,053
—for investment purposes				
A.2 Purchases under finance leases				
—for business purposes				
—for investment purposes				
Total	**1,053**			**1,053**

PART C—INFORMATION ABOUT THE CONSOLIDATED INCOME STATEMENT (Continued)

(In thousands of Euro)	Year ended December 31, 2013			
	Amortization (a)	Impairment adjustments (b)	Write backs (c)	Net result (a+b+c)
Asset/cost component				
A. Property, plant and equipment				
A.1 Owned				
—for business purposes	1,217			1,217
—for investment purposes				
A.2 Purchases under finance leases				
—for business purposes				
—for investment purposes				
Total	**1,217**	**—**	**—**	**1,217**

Section 14—Impairment/write-backs on intangible assets—Item 210

14.1 Impairment/write-backs on intangible assets: breakdown

(In thousands of Euro)	Year ended December 31, 2015			
	Amortization (a)	Impairment adjustments (b)	Write backs (c)	Net result (a+b+c)
Asset/cost component				
A. Intangible assets				
A.1 Owned				
—generated in-house				
—Other	1,023			1,023
A.2 Purchases under finance leases				
Total	**1,023**	**—**	**—**	**1,023**

(In thousands of Euro)	Year ended December 31, 2014			
	Amortization (a)	Impairment adjustments (b)	Write backs (c)	Net result (a+b+c)
Asset/cost component				
A. Intangible assets				
A.1 Owned				
—generated in-house				
—Other	689			689
A.2 Purchases under finance leases				
Total	**689**			**689**

(In thousands of Euro)	Year ended December 31, 2013			
	Amortization (a)	Impairment adjustments (b)	Write backs (c)	Net result (a+b+c)
Asset/cost component				
A. Intangible assets				
A.1 Owned				
—generated in-house				
—Other	572			572
A.2 Purchases under finance leases				
Total	**572**	**—**	**—**	**572**

PART C—INFORMATION ABOUT THE CONSOLIDATED INCOME STATEMENT (Continued)

Section 15—Other net operating income—Item 220

15.1 Other operating expenses: breakdown

(In thousands of Euro)	Financial year ended December 31		
	2015	2014	2013
Detail			
1. Operating expenses			
—contingent liabilities	—	—	(60)
—Rounding off and allowance expenses	(65)	(69)	(70)
—Other expenses	(3)	—	—
—Expenses for guarantee funds	—	(13)	—
Total	**(68)**	**(82)**	**(130)**

15.2 Other operating income: breakdown

(In thousands of Euro)	Financial year ended December 31		
	2015	2014	2013
Detail			
1. Operating income			
—Recovery of legal expenses for non-recourse purchases	1,256	1,771	2,412
—Recovery of operational legal expenses	746	1,026	928
—Realizable value of receivables not at nominal value		3,483	2,134
—Contingent assets	903	339	853
—Recovery of assignor notary expenses	188	68	100
—Other income	1,119	427	312
Total	**4,212**	**7,114**	**6,739**

Section 20—Tax expense (income) related to profit or loss from continuing operations—Item 290

20.1 Tax expense (income) related to profit or loss from continuing operations: breakdown

(In thousands of Euro)	Financial year ended December 31		
	2015	2014	2013
Income components/Sectors			
1. Current taxes	22,979	31,651	35,337
2. Changes in current taxes for prior years			
3. Decrease in current taxes for the year			
3.b Decrease in current taxes for the year for tax credits provided for by law 214/2011			
4. Change in deferred tax assets	(362)	(537)	637
5. Change in deferred tax liabilities	4,912	30,600	(350)
Total	**27,529**	**61,714**	**35,624**

PART C—INFORMATION ABOUT THE CONSOLIDATED INCOME STATEMENT (Continued)

20.2 Reconciliation of the theoretical tax rate to the current tax rate

The following table provides a reconciliation of the theoretical tax rate to the current tax rate:

	Financial year ended December 31					
	2015		2014		2013	
(In thousands of Euro)	IRES (corporate income tax)	IRAP (regional income tax)	IRES (corporate income tax)	IRAP (regional income tax)	IRES (corporate income tax)	IRAP (regional income tax)
Economic results for the calculation of the tax rate	83,714	87,776	182,979	190,947	84,508	92,830
Theoretical tax burden: 36% IRES 2013, 27,5% IRES 2015 and 2014—5,57% IRAP	23,021	4,889	**50,319**	**10,636**	30,423	5,171
Permanent non-deductible differences	(8,920)	1,202	889	1,801	2,759	2,153
Deductible IRAP	(1,190)		(809)		(1,696)	
Temporary differences taxable in future years	(18,884)		(111,291)			
Temporary differences deductible in future years	1,943	122	1,913		1,231	
Reversal of temporary differences from subsequent financial years	(651)	(44)	(994)	(271)	(3,160)	(1,815)
Taxable income	56,012	89,056	**72,687**	**192,477**	83,642	93,168
Current income taxes for the year: (IRES and IRAP)	14,688	4,816	**19,989**	**10,721**	30,111	5,189

Section 24—Earnings per share

24.1 Average number of common shares on a diluted capital basis

The following table sets forth the computation of the earnings per share for the Group, based on the average number of shares outstanding during the 2013-2015 three-year period, which was 1,700,000.

	Financial year ended December 31		
Earnings per share	2015	2014	2013
Group's profit for the year (in thousands of Euro)	68,791	124,378	48,913
Average number of shares in circulation	1,700,000	1,700,000	1,700,000
Earnings per share (basic and diluted) in Euro	**40,47**	**73,16**	**28,77**

During the abovementioned three-year period, the Group did not execute any transactions that could have had a dilutive effect on its earnings per share.

PART D—CONSOLIDATED COMPREHENSIVE INCOME

ANALYTICAL STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

(In thousands of Euro)		Year ended December 31, 2015		
	Items	Gross amount	Income tax	Net amount
10.	**Profit (loss) for the year**	**X**	**X**	**68,791**
	Other comprehensive income that will not be reclassified subsequently to the income statement			**—**
20.	Property, plant and equipment			—
30.	Intangible assets			—
40.	Defined benefit plans	(167)	46	(121)
50.	Non-currents assets classified as held for sale			—
60.	Portion of valuation reserves from investments accounted for using the equity method			—
	Other comprehensive income that will be reclassified subsequently to the income statement			**—**
70.	Hedges of foreign investments			—
80.	Exchange rate differences			—
90.	Cash flow hedges			—
	a) fair value changes	40	(13)	27
	b) reclassification to income statement			
	c) other changes			
100.	Available-for-sale financial assets			—
	a) fair value changes	363	(120)	243
	b) reclassification to income statement			
	c) other changes			
110.	Non-currents assets classified as held for sale			—
120.	Portion of valuation reserves from investments accounted for using the equity method			—
130.	**Total Other comprehensive income**	**236**	**(87)**	**149**
140.	**Comprehensive income (Item 10+130)**	**236**	**(87)**	**68,940**
150.	**Total comprehensive income attributable to minority interests**			**—**
160.	**Consolidated comprehensive income attributable to the parent company**	**236**	**(87)**	**68,940**

PART D—CONSOLIDATED COMPREHENSIVE INCOME (Continued)

(In thousands of Euro)		Year ended December 31, 2014		
		Gross amount	Income tax	Net amount
	Items			
10.	**Profit (loss) for the year**	**X**	**X**	**124,378**
	Other comprehensive income that will not be reclassified subsequently to the income statement			**—**
20.	Property, plant and equipment			—
30.	Intangible assets			—
40.	Defined benefit plans	2	—	2
50.	Non-currents assets classified as held for sale			—
60.	Portion of valuation reserves from investments accounted for using the equity method			—
	Other comprehensive income that will be reclassified subsequently to the income statement			**—**
70.	Hedges of foreign investments			—
80.	Exchange rate differences			—
90.	Cash flow hedges			—
	a) fair value changes	(40)	13	(27)
	b) reclassification to income statement			
	c) other changes			
100.	Available-for-sale financial assets			—
	a) fair value changes	(237)	78	(159)
	b) reclassification to income statement			
	c) other changes			
110.	Non-currents assets classified as held for sale			—
120.	Portion of valuation reserves from investments accounted for using the equity method			—
130.	**Total Other comprehensive income**	**(275)**	**91**	**(184)**
140.	**Comprehensive income (Item 10+130)**	**(275)**	**91**	**124,194**
150.	**Total comprehensive income attributable to minority interests**			
160.	**Consolidated comprehensive income attributable to the parent company**	**(275)**	**91**	**124,194**

PART D—CONSOLIDATED COMPREHENSIVE INCOME (Continued)

(In thousands of Euro)		Year ended December 31, 2013 Gross amount	Income tax	Net amount
	Items			
10.	**Profit (loss) for the year**	X	X	48,913
	Other comprehensive income that will not be reclassified subsequently to the income statement			—
20.	Property, plant and equipment			—
30.	Intangible assets			—
40.	Defined benefit plans	(1)	—	(1)
50.	Non-currents assets classified as held for sale			—
60.	Portion of valuation reserves from investments accounted for using the equity method			—
	Other comprehensive income that will be reclassified subsequently to the income statement			—
70.	Hedges of foreign investments			—
80.	Exchange rate differences			—
90.	Cash flow hedges			—
100.	Available-for-sale financial assets	592	(196)	397
110.	Non-currents assets classified as held for sale			—
120.	Portion of valuation reserves from investments accounted for using the equity method			—
130.	**Total other comprehensive income**	**591**	**(196)**	**396**
140.	**Comprehensive income (Item 10+130)**	**591**	**(196)**	**49,309**
150.	**Total comprehensive income attributable to minority interests**			
160.	**Consolidated comprehensive income attributable to the Parent company**	**591**	**(196)**	**49,309**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES

Foreword

The Group adopted suitable corporate governance tools and adequate management and control mechanisms in order to mitigate the risks to which it is exposed; these safeguards are part of the governance of the organization and of the system of internal controls, aimed at ensuring management practices grounded in the canons of efficiency, effectiveness and fairness, covering every type of business risk consistent with the characteristics, dimensions and complexity of the business activities carried out. With this in mind, the Group formalized its risk management policies, periodically reviewing them to ensure their effectiveness over time and constantly monitoring the actual deployment of risk management and control processes. These policies define:

- the governance of the risks and responsibilities of the organizational units involved in the management process;
- the mapping of the risks to which the Group is exposed, the measuring and stress testing methods and the information flows that summarize the monitoring activities;
- the annual assessment process on the adequacy of internal capital;
- the activities for the assessment of the prospective adequacy of capital associated with the strategic planning process.

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

The corporate governance bodies of BFF, in its capacity as the Group's parent company, define the risk governance and management model at the Group level, taking into account the specific types of business and the related risk profiles characterizing the entire Group, with the aim of creating an integrated and consistent risk management policy. Within this framework, BFF's corporate governance bodies perform the functions entrusted to them not only with regard its specific business activities but also taking into account the Group's operations as a whole and the risks to which it is exposed and involving, as appropriate, the governance bodies of the subsidiary in the decisions made regarding risk management procedures and policies.

At the Group level, the Risk Management and Anti-Money Laundering Operational Unit cooperates in the process of defining and implementing the risk governance policies through an adequate risk management process. The person in charge is not involved in the operating activities that he/she is asked to control, and his/her duties, and the relative responsibilities, are governed by a specific internal regulation.

In addition to other tasks, the Risk Management Function is responsible for:

- cooperating with the corporate governance bodies in defining the overall risk management system;
- establishing adequate risk management processes through the adoption and maintenance of suitable risk management systems, in order to map, measure, control or mitigate all relevant risks;
- providing an assessment of the capital absorbed and the relative adequacy, by defining processes and procedures to meet every type of present and future risk, which take into account strategies and context changes;
- overseeing the implementation of the risk management process and ascertaining that it is being complied with;
- monitoring the adequacy and effectiveness of the actions taken to resolve any weaknesses found in the risk management system;
- submitting periodical reports to the corporate governance bodies on the activities carried out and providing them with consulting support on risk management issues.

SECTION 1—GROUP RISKS

1.1 Credit risks

Qualitative information

1. General issues

Factoring activities, disciplined by the Italian Civil Code (Book IV—Chapter V, Articles 1260-1267) and Law No. 52 of February 21, 1991 and subsequent laws, consist of a plurality of financial services that can be structured in various ways through the sale of trade receivables on a recourse or non-recourse basis. A particular characteristic of factoring transactions is the involvement of three different parties:

- Factor (assignee)
- Customer (assignor)
- Debtor (assigned)

2. Credit risk management policies

2.1 Organizational issues

In view of the above considerations, the assessment of a factoring transaction must be conducted through the analysis of a number of factors, ranging from the degree of risk fragmentation to the characteristics of

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

the commercial transaction underlying the credit quality, from the reimbursement ability of the customer assignor to the solvency of the assigned debtors.

The monitoring and management of credit risk starts with a preliminary review of the credit line application, before a factoring service is offered. The various corporate functions collaborate with maximum synergy to provide analytical and subjective assessments of the counterparties, both from a quantitative (current, past and future economic conditions) and qualitative (managerial ability, competitiveness, product prospects and potential credit volumes to be managed) standpoint.

The guidelines and procedures to monitor and control credit risk are set forth in the current "Credit Regulation," approved by the Board of Directors on February 23, 2004, and subsequent updates. A further organizational safeguard against credit risk is provided by the "Credit Control Regulation," approved by the Board of Directors on July 21, 2009, and subsequent updates, which describes the credit control process on the debtor and is an integral part of the of the "Credit Regulation."

2.2 Management, measurement and control systems

The assessment of credit risk is part of an overall analysis of the adequacy of the Group's capital in relation to the risks connected with lending. With this in mind, the Group uses the "standardized" approach to measure credit risk, as required by the Bank of Italy in Circular No. 285 "*Oversight provisions for banks*" and Circular No. 286 "*Instructions for the preparation of supervisory reporting by banks and securities intermediaries*," both dated December 17, 2013, and subsequent updates. This approach involves the classification of exposures into different classes (portfolios), depending on the type of counterparty and the application of diversified weighted ratios to each portfolio.

More specifically, for the "Central administrations and central banks" portfolio, the weighting depends on the rating assigned by the External Credit Assessment Institutions (ECAIs) and the Export Credit Agencies (ECAs) to individual countries; for the "Supervised intermediaries" portfolio, the weighting depends on the rating of the country where the supervised intermediary is based; for the "Public sector entities" portfolio, the rules for weighting are the same as those for supervised intermediaries.

On June 13, 2013, the Group informed the Bank of Italy that, beginning with the reporting flows at June 30, 2013, it planned to start using the ratings published by the ECAI Dominion Bond Rating Service (DBRS) instead of Moody's Investor Service. The unsolicited rating assigned to the Italian Republic by DBRS is "A low" and, consequently, the Class 2 credit rating applies to exposures for receivables from the Public Administration, with a risk weight equal to 50%. This percentage was deemed to be more representative—compared with the weighting of 100% for the Class 3 credit rating assigned by Moody's Investor Service—of the risks actually attributable to counterparties in the public administration, which represent virtually all of the Group's exposures.

The Group constantly maintains, as a capital requirement covering credit risk, an amount of own funds equal to at least 8% of the weighted exposure for credit risk in 2015, 2014 and 2013.

Capital requirement = 8% Risk Weighted Amount (RWA)

The Risk Weighted Amount is determined by the sum of the risk weighted assets of the various classes. Based on the abovementioned methodology, the consolidated capital requirement for credit risk was equal to €61,911 thousand at December 31, 2015, €52,831 thousand at December 31, 2014 and €52,984 thousand at December 31, 2013. Moreover, the "Credit Regulation" describes the phases that in sector regulations are identified as components of the credit process:

- background check;
- decision;
- disbursement;
- monitoring and review;
- dispute.

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

In order to identify the main risk factors, the main activities carried out by the Company are described as follows:

- receivables management only;
- non-recourse factoring;
- recourse factoring.

In the "receivables management only" service the credit risk is considerably reduced because it is limited to the Group's exposure with the customer for payment of the stipulated fees and commissions, or the reimbursement of legal fees incurred. The granting of a credit line for "receivables management only" follows the normal procedures used in the credit process even when the credit line can be approved by a single-person entity.

Non-recourse factoring by its very nature represents the service that is most exposed to credit risk. For this reason, the background check for the credit line application is carried out with the utmost care and the decision-making power is reserved for designate approval bodies.

Consequently, the credit risk management process, in addition to following internal company regulations must also abide by external regulations (Bank of Italy Circulars No. 285 "*Oversight provisions for banks*" and No. 286 "*Instructions for the preparation of regulatory reporting by banks and securities intermediaries"* and subsequent updates) regarding risk concentration. More specifically:

- a "large exposure" is defined as any position equal to or greater than 10% of the Admissible Capital, as defined in Regulation No. 575 of 2013 (sum of Class 1 Capital and Class 2 Capital equal to or lower than one-third of Class 1 Capital). For Banca Farmafactoring, the Admissible Capital corresponds to its own funds;
- for banking groups and banks not belonging to a banking group, each risk position must not be greater than 25% of its own funds.

In view of the fact that the Group has an exposure that is almost completely comprised of receivables due by the Public Administration, the portfolio risk is thought to be limited. Furthermore, BFF files a monthly report with the "Central Credit Register" (Bank of Italy Circular No. 139 of February 11, 1991-14th update of April 29, 2011 "Central Credit Register. Instructions for Credit Intermediaries") providing information on the financial debt trend of the debtor over the course of time and on the available/utilized ratio (which shows the financial obligations of the company and its debt margins vis-à-vis the system).

Qualitative assessment of receivables

The Group performs an impairment test on the receivables portfolio in order to identify any impairment of its financial assets. This analysis makes it possible to differentiate between performing and non-performing receivables; including in the latter category financial assets that show an individual risk of loss, while the remaining financial assets are classified in the performing category.

Performing receivables

The assessment of performing receivables applies to those receivables from customers that, while more than 90 days past due, show no objective indication of impairment at the individual level. This representation is consistent with the assessment criterion of receivables purchased on a non-recourse basis at "amortized cost," which, in fact, is based on discounting to present value estimated future cash flows according to an estimate of the time to collection. Even though the receivables are owed almost exclusively by the Public Administration, as in previous years, at the date of each annual financial statements or interim reports, the Group, in accordance with the provisions of IAS 39, carried out a collective impairment test of performing receivables in order to monitor the quantitative content.

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

In order to determine the Loss Given Default (LGD), BFF assumed the value proposed by the "Basel Accord Framework" for unsecured receivables from sovereign states, companies and banks as being equal to 45% of the Probability of Default (PD) found. The collective assessment of the PD was performed by assigning a rating to the debtors (ASLs/AOs), corresponding to the credit rating assigned by the major rating agencies for the particular Region to which the debtors belong. This analysis and the corresponding computation methods were developed when the transition was made to international accounting standards. Such computations never produced significant data since the PD attributed to the Regions based on the rating led to a modest impairment according to the impairment test.

At December 31, 2015, 2014 and 2013, the impairment test indicated an impairment loss of about €2.9 million, €2 million and €2 million, respectively. The increase of €0.9 million from 2014 to 2015 was mainly due to an increase in the Group's outstanding receivables.

Non-performing receivables

As required by IAS 39 and for purposes of an analytical assessment, the Group carried out a review of the financial assets classified as non-performing receivables in order to identify any objective impairment of individual positions. The Group's non-performing receivables consist of BFF's non-performing receivables, valued, net of individual impairment losses, at €2,507 thousand at December 31, 2015, €2,936 thousand at December 31, 2014 and €2,368 thousand at December 31, 2013.

2.3 Credit risk mitigation techniques

In order to render receivables purchased on a non-recourse basis compatible with the derecognition principle, the risk mitigation clauses that could in some way invalidate the effective transfer of risks and benefits were eliminated from the respective contracts.

2.4 Impaired financial assets

On July 24, 2014, the European Banking Authority (EBA) published the "Final draft implementing technical standards on supervisory reporting of forbearance and nonperforming exposures" (EBA/ITS/2013/03/rev 1 7/24/2014): this document introduces new definitions for impaired assets and forbearance measures.

These definitions, which were adopted by the Bank of Italy with the seventh update to Circular No. 272 of January 20, 2015, call for impaired assets to be classified into the following categories:

- Past-due exposures, valued at €43,234 thousand at December 31, 2015, €9,779 thousand at December 31, 2014 and €5,803 thousand at December 31, 2013;
- Probable defaults non recognized during the three year period;
- Nonperforming exposures, values at €2,507 thousand at December 31, 2015, €2,936 thousand at December 31, 2014 and €2,368 thousand at December 31, 2013.

In 2014 and 2013, receivables from customers were classified into "performing receivables" and "impaired receivables," in accordance with the provisions of Bank of Italy Circular No. 262 of December 22, 2005, and subsequent updates, "Bank Financial Statements: layout and preparation rules." "Impaired receivables" were, in turn, classified into the categories "past-due exposures," "restructured exposures," "doubtful exposures" and "nonperforming exposures," in accordance with the definitions of the regulatory guidelines then in effect, as set forth in the Bank of Italy Circular No. 272 of July 30, 2008 "Account Matrix," and subsequent updates. Following the introduction of the abovementioned EBA document, the receivables included in the "doubtful" category at December 31, 2014 were reclassified into "probable defaults." Doubtful exposures amounted to €62 thousand at December 31, 2014 and €196 thousand as December 31, 2013.

During the three-year period, the Group did not hold any restructured exposures.

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

Past-due exposures

These are exposures with central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies that, at December 31, 2015, 2014 and 2013 were more than 90 days past due.

More specifically, exposures with central administrations and central banks, public sector entities and territorial entities, are considered past due when the debtor has not made any payments for any debt positions owed to the financial intermediary for more than 90 days.

At December 31, 2015, 2014 and 2013, the total net past due receivables amounted to €43,234 thousand, €9,779 thousand and €5,803 thousand, respectively.

Probable defaults

The "unlikely to pay" concept is used to define this type of exposure and, consequently, the probable default reflects the *judgment* made by the intermediary about the unlikeliness, absent such actions as the enforcement of guarantees, that the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts or installments.

Therefore, it is not necessary to wait for an explicit sign of anomaly (e.g., failure to repay) when there are factors that signal a default risk situation for the debtor. Exposures with retail customers can be classified in the probable default category at the individual transaction level, provided the intermediary believes that the conditions for classifying in this category the entire complex of exposures with same debtor cannot be met.

At December 31, 2015, the Group did not hold positions classified in the probable default category.

Nonperforming exposures

These are exposure with parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections recognized by the Company.

At December 31, 2015, 2014 and 2013 the total of non-performing receivables, net of write-downs due to estimated impairment losses, amounted to €2,507 thousand €2,936 thousand and €2,368 thousand, respectively.

These amounts mainly reflect the exposure with the debtor Fondazione Monte Tabor in liquidation and in composition with creditors proceedings, which, in 2013, made payments for first and second distributions for a total of approximately €9.6 million, followed by a payment of €1.5 million in 2015, which brought to €0.9 million the remaining exposure at December 31, 2015.

Following the verification, under the composition with creditors approved by the Creditors' Meeting, of the claim with regard both to principal and late-payment interest, which had already been written off, BFF chose not recognize a provision as the amounts that will be collected under the terms of the composition match the principal amount outstanding.

In 2014, another debtor and an assignor were considered non-performing for an amount of approximately €570 thousand, which has not been written down because it is secured by a surety.

Receivables for late-payment interest on non-performing positions amounting to €13.6 million were written off in full. They refer mainly to Fondazione Centro San Raffaele del Monte Tabor in liquidation and in composition with creditors proceedings.

At December 31, 2015, other nonperforming exposures amounted to about €3.3 million, including exposures of about €1.6 million that were completely written off against a provision for impairment and, consequently, showed a zero net value. The remaining positions, totaling about €1.6 million were not

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

written down because they refer to positions secured by sureties and exposures with local government entities in distress (including €743 thousand purchased already as distressed and €312 thousand purchased as performing and later classified as distressed), for which no provisions were recognized, as the distressed condition is expected to be remedied resulting in the collection of 100% of the claim. In 2014 and 2013, the other non-performing positions were completely written off against a provision for impairment and, consequently, showed a zero net value.

Unlike the considerations made for nonperforming positions, the valuation of past-due exposures and doubtful receivables is carried out at the portfolio level since these positions do not display objective indications of individual impairment losses.

Doubtful exposures

In 2014 and 2013, they represented exposures with parties in a temporary situation of objective difficulty, the resolution of which is foreseeable within a reasonable period. Doubtful exposures include "Objectively doubtful receivables," which are exposures with the following characteristics:

- they do not belong to the "Central Administrations and Central Banks," "Territorial Entities" and "Public Sector Entities" portfolios;
- have been past due on an ongoing basis for more than 270 days;
- the total amount of the past due exposures represents at least 10% of the total exposure.

At December 31, 2014 and 2013, net doubtful positions totaled €62 thousand and €196 thousand, respectively, all of them "Objectively doubtful positions."

Restructure exposures

In 2014 and 2013, these were positions for which an intermediary, due to the deterioration of the debtor's economic and financial conditions, agreed to amend the original contractual term, thereby generating a loss.

At December 31, 2014 and 2013, the Group did not hold any positions classified as restructured exposures.

Quantitative information

In this section, pursuant to Bank of Italy Circular No. 262 of December 22, 2005 "Bank Financial Statements: layout and preparation rules" and subsequent updates, information is being provided solely in reference to the Group, comprised of BFF and Farmafactoring España.

In the cases expressly indicated, in which the aggregate for the companies included in consolidation should be considered, the data for the special purpose entities FF Finance, Farmafactoring SPV I and Mediona are also reported. In the tables that refer only to the Group, the data are represented including the transactions with the other companies included in the scope of consolidation.

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

A. Credit quality

A.1 Impaired and performing exposures: amounts, impairment losses, changes, breakdown by business activity and region

A.1.1 Breakdown of financial assets by portfolio and credit quality (carrying amounts)

	Non-performing	Unlikely to pay exposures	Impaired past due exposures	Other impaired exposures	Not impaired exposures	Total at December 31, 2015
1. Available-for-sale financial assets					429,414	**429,414**
2. Financial assets held to maturity					822,859	**822,859**
3. Loans to banks					55,778	**55,778**
4. Receivables and loans	2,507		43,234		1,916,263	**1,962,004**
5. Financial assets measured at fair value through profit or loss						
6. Disposal of available-for-sale						
Total	**2,507**	**—**	**43,234**	**—**	**3,224,314**	**3,270,055**

(In thousands of Euro)	Banking group						Other companies		Total at December 31, 2014
Portfolio/quality	**Non-performing**	**Doubtful**	**Restructured exposures**	**Impaired past due exposures**	**Not impaired past due exposures**	**Other assets**	**Impaired**	**Other**	
1. Financial assets held for trading									
2. Available-for-sale financial assets						370,156			370,156
3. Financial assets held to maturity						955,932			955,932
4. Loans to banks						77,389		20,337	97,726
5. Receivables and loans	2,936	62		9,779	255,287	1,286,893			1,554,957
6. Financial assets measured at fair value through profit or loss at fair value									
7. Disposal of available-for-sale financial assets									
8. Hedging derivatives									
Total	**2,936**	**62**	**—**	**9,779**	**255,287**	**2,690,370**	**—**	**20,337**	**2,978,771**

(In thousands of Euro)	Banking group						Other companies		Total at December 31, 2013
Portfolio/quality	**Non-performing**	**Doubtful**	**Restructured exposures**	**Impaired past due exposures**	**Not impaired past due exposures**	**Other assets**	**Impaired**	**Other**	
1. Financial assets held for trading						5			5
2. Available-for-sale financial assets						81,992			81,992
3. Financial assets held to maturity									
4. Loans to banks						118,197		207,747	325,944
5. Receivables and loans	2,368	195		5,803	180,745	947,467			1,136,578
6. Financial assets measured at fair value through profit or loss at fair value									
7. Disposal of available-for-sale financial assets									
8. Hedging derivatives									
Total	**2,368**	**195**	**—**	**5,803**	**180,745**	**1,147,661**	**—**	**207,747**	**1,544,519**

Receivables due from customers include performing receivables purchased on a non-recourse basis, recorded in the name of the assigned debtor, which meet the conditions for derecognition, are measured at amortized cost and amounted to €1,880,538 thousand at December 31, 2015, €1,523,383 thousand at December 31, 2014 and €1,119,125 thousand at December 31, 2013.

These accounts include non-impaired past due exposures—in accordance with the provisions of Bank of Italy Circular No. 272 of July 30, 2008 "Account matrix" and subsequent updates—amounting to €386,219 thousand at December 31, 2015, €255,287 thousand at December 31, 2014 and €180,745 at December 31, 2013.

All purchases of non-recourse receivables by BFF refer to factoring transactions pursuant to Law No. 52/91.

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net amounts)

	Impaired assets			Preforming			
(In thousands of Euro)	Gross Exposure	Portfolio impair. loss	Net Exposure	Gross Exposure	Portfolio impair. loss	Net Exposure	Total at December 31, 2015
Portfolio/quality							
A. Banking group							
1. Held-for-Trading Financial Assets							
2. Available-for-sale financial assets				429,415		429,415	429,415
3. Held-to-maturity financial assets				822,859		822,859	822,859
4. Loans to banks				55,778		55,778	55,778
5. Receivables and loans	47,536	1,795	45,741	1,920,013	3,750	1,916,263	1,962,004
6. Financial assets measured at fair value							
7. Financial assets held for sale							
8. Hedging derivatives							
Total A	**47,536**	**1,795**	**45,741**	**3,228,065**	**3,750**	**3,224,315**	**3,270,056**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

	Impaired assets			Preforming			Total at December 31, 2014
(In thousands of Euro)	Gross Exposure	Portfolio impair. loss	Net Exposure	Gross Exposure	Portfolio impair. loss	Net Exposure	
Portfolio/quality							
A. Banking group							
1. Held-for-Trading Financial Assets							
2. Available-for-sale financial assets				370,156		370,156	370,156
3. Held-to-maturity financial assets				955,932		955,932	955,932
4. Loans to banks				77,389		77,389	77,389
5. Receivables and loans	14,676	1,899	12,778	1,544,848	2,668	1,542,180	1,554,957
6. Financial assets measured at fair value							
7. Financial assets held for sale							
8. Hedging derivatives							
Total A	**14,676**	**1,899**	**12,778**	**2,948,325**	**2,668**	**2,945,657**	**2,958,434**
B. Other companies included in the consolidation							
1. Held-for-Trading Financial Assets							
2. Available-for-sale financial assets							
3. Held-to-maturity financial assets							
4. Loans to banks				20,337		20,337	20,337
5. Receivables and loans							
6. Financial assets measured at fair value							
7. Financial assets held for sale							
8. Hedging derivatives							
Total B	**—**	**—**	**—**	**20,337**	**—**	**20,337**	**20,337**
Total	**14,676**	**1,899**	**12,778**	**2,968,662**	**2,668**	**2,965,994**	**2,978,771**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

	Impaired assets			Performing			Total at December 31, 2013
(In thousands of Euro)	Gross exposure	Portfolio impair. loss	Net Exposure	Gross exposure	Portfolio impair. loss	Net Exposure	
Portfolio/quality							
A. Banking group							
1. Held-for-Trading Financial Assets				5		5	5
2. Available-for-sale financial assets				81,992		81,992	81,992
3. Held-to-maturity financial assets							
4. Loans to banks				118,198		118,198	118,198
5. Receivables and loans	11,259	2,892	8,367	1,130,184	1,973	1,128,211	1,136,578
6. Financial assets measured at fair value							
7. Financial assets held for sale							
8. Hedging derivatives							
Total A	**11,259**	**2,892**	**8,367**	**1,330,379**	**1,973**	**1,328,406**	**1,336,773**
B. Other companies included in the consolidation							
1. Held-for-Trading Financial Assets							
2. Available-for-sale financial assets							
3. Held-to-maturity financial assets							
4. Loans to banks				207,747		207,747	207,747
5. Receivables and loans							
6. Financial assets measured at fair value							
7. Financial assets held for sale							
8. Hedging derivatives							
Total B	**—**	**—**	**—**	**207,747**	**—**	**207,747**	**207,747**
Total	**11,259**	**2,892**	**8,367**	**1,538,126**	**1,973**	**1,536,153**	**1,544,520**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

A.1.3 Group—On and off-balance sheet credit exposures with banks: gross and net amounts

(In thousands of Euro)	At December 31, 2015							
	Gross exposure							
	Impaired assets							
	Up to 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Performing	Specific value adjustments	Portfolio value adjustments	Net exposure
A. BALANCE SHEET EXPOSURE								
a) Non-performing								
—forborne exposures								
b) Unlikely to pay exposures								
—forborne exposures								
c) Impaired past due exposures								
—forborne exposures								
d) Not impaired past due exposures								
—forborne exposures								
e) Other not impaired exposures					55,778			55,778
—forborne exposures								
TOTAL A					**55,778**			**55,778**
B. OFF-BALANCE SHEET EXPOSURE								
a) Impaired								
b) Other								
TOTAL B								
TOTAL (A + B)					55,778			55,778

(In thousands of Euro)	At December 31, 2014			
	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. BALANCE SHEET EXPOSURE				
a) Non-performing				
b) Doubtful				
c) Restructured exposures				
d) Impaired past due exposures				
e) Other assets	77,389			77,389
TOTAL A	**77,389**	**—**	**—**	**77,389**
B. OFF-BALANCE SHEET EXPOSURE				
a) Impaired				
b) Other	22			22
TOTAL B	**22**	**—**	**—**	**22**
TOTAL (A+B)	**77,411**	**—**	**—**	**77,411**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

(In thousands of Euro)	At December 31, 2013 Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. BALANCE SHEET EXPOSURE				
a) Non-performing				
b) Doubtful				
c) Restructured exposures				
d) Impaired past due exposures				
e) Other assets	118,197			118,197
TOTAL A	**118,197**	**—**	**—**	**118,197**
B. OFF-BALANCE SHEET EXPOSURE				
a) Impaired				
b) Other	27			27
TOTAL B	**27**	**—**	**—**	**27**
TOTAL (A+B)	**118,224**	**—**	**—**	**118,224**

A.1.6 Group—On and off-balance sheet credit exposures with customers for receivables and loans: gross and net amounts

(In thousands of Euro)	At December 31, 2015							
	Gross exposure							
	Impaired assets							
	Up to 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Performing	Specific value adjustments	Portfolio value adjustments	Net exposure
A. BALANCE SHEET EXPOSURE								
a) Non-performing			228	3,998		1,719		2,507
—forborne exposures								
b) Unlikely to pay exposures								
—forborne exposures								
c) Impaired past due exposures	33,531	2,004	7,010	765		76		43,234
—forborne exposures								
d) Not impaired past due exposures					387,769		1,550	386,219
—forborne exposures								
e) Other not impaired exposures					1,532,244			1,530,044
—forborne exposures								
TOTAL A	**33,531**	**2,004**	**7,238**	**4,763**	**1,920,013**	**1,795**	**3,750**	**1,962,004**
B. OFF-BALANCE SHEET EXPOSURE								
a) Impaired								
b) Other					117,461			
TOTAL B					**117,461**			
TOTAL (A + B)	**33,531**	**2,004**	**7,238**	**4,763**	**2,037,474**	**1,795**	**3,750**	**1,962,004**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

	At December 31, 2014			
(In thousands of Euro)	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. BALANCE SHEET EXPOSURE				
a) Non-performing	4,819	1,883		2,936
b) Doubtful	62			62
c) Restructured exposures				
d) Impaired past due exposures	9,795	16		9,779
e) Other assets	2,870,936		2,668	2,868,268
TOTAL A	**2,885,612**	**1,899**	**2,668**	**2,881,045**
B. OFF-BALANCE SHEET EXPOSURE				
a) Impaired				
b) Other	11,280			11,280
TOTAL B	**11,280**	**—**	**—**	**11,280**
TOTAL (A+B)	**2,896,892**	**1,899**	**2,668**	**2,892,325**

	At December 31, 2013			
(In thousands of Euro)	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. BALANCE SHEET EXPOSURE				
a) Non-performing	4,635	2,267		**2,368**
b) Doubtful	196			**196**
c) Restructured exposures				
d) Impaired past due exposures	6,428	625		**5,803**
e) Other assets	1,239,424		1,973	**1,237,451**
TOTAL A	**1,250,683**	**2,892**	**1,973**	**1,245,818**
B. OFF-BALANCE SHEET EXPOSURE				
a) Impaired				
b) Other				
TOTAL B	—	—	—	**—**
TOTAL (A+B)	**1,250,683**	**2,892**	**1,973**	**1,245,818**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

A.1.7 Group—On-balance sheet credit exposures with customers: gross changes in impaired exposures

(In thousands of Euro)	At December 31, 2015		
	Non-performing	Unlikely to pay exposures	Impaired past due exposures
Source/Category			
A. Opening gross impairments	**4,819**	**62**	**9,795**
—of which: receivables sold but not derecognized			
B. Increases	**1,518**	**—**	**44,540**
B.1 transfer from performing exposures	**1,479**		**44,502**
B.2 transfers from other impaired exposures	30		29
B.3 other increases	9		9
C. Decreases	**2,111**	**62**	**11,025**
C.1 transfer to performing exposures	184	1	1,364
C.2 derecognition			
C.3 collections	1,927	3	9,661
C.4 proceeds on sale			
C.5 losses on sale			
C.6 transfer to other impaired exposures		58	
C.7 other decreases			
D. Closing gross impairments	**4,226**	**—**	**43,310**
—of which: receivables sold but not derecognized	914		3,769

(In thousands of Euro)	At December 31, 2014			
	Non-performing	Doubtful	Restructured exposures	Impaired past due exposures
Source/Category				
A. Opening gross impairments	**4,635**	**196**		**6,427**
—of which: receivables sold but not derecognized				
B. Increases	**597**	**37**		**8,041**
B.1 transfer from performing exposures	427			6,788
B.2 transfers from other impaired exposures	142			8
B.3 other increases	28	37		1,245
C. Decreases	**413**	**171**		**4,673**
C.1 transfer to performing exposures				4,357
C.2 derecognition				
C.3 collections	413	21		316
C.4 proceeds on sale				
C.5 losses on sale				
C.6 transfer to other impaired exposures		150		
C.7 other decreases				
D. Closing gross impairments	**4,819**	**62**		**9,795**
—of which: receivables sold but not derecognized				

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

(In thousands of Euro)	At December 31, 2013			
	Non-performing	Doubtful	Restructured exposures	Impaired past due exposures
Source/Category				
A. Opening gross impairments	**14,102**	**2,898**		**8,273**
—of which: receivables sold but not derecognized				
B. Increases	**723**	**55**		**5,460**
B.1 income from performing exposures	601			5,388
B.2 transfers from other impaired exposures				
B.3 other increases	122	55		72
C. Decreases	**(10,189)**	**(2,757)**		**(7,306)**
C.1 transfer to performing exposures	(33)			(3,706)
C.2 derecognition	(99)	(2)		(4)
C.3 collections	(9,417)	(2,751)		(3,575)
C.4 proceeds on sale				
C.5 losses on sale				
C.6 transfer to other impaired exposures	(639)	(4)		
C.7 other decreases	(1)			(21)
D. Closing gross impairments	**4,636**	**196**	**—**	**6,427**
—of which: receivables sold but not derecognized				

A.1.8 Group—On-balance sheet credit exposures with customers: changes in total impairment losses

(In thousands of Euro)	At December 31, 2015					
	Non-performing		Unlikely to pay exposures		Impaired past due exposures	
	Total	Forborne exposures	Total	Forborne exposures	Total	Forborne exposures
Source/Category						
A. Opening total impairments	**1,883**				**16**	
—of which: receivables sold but not derecognized						
B. Increases	**143**				**77**	
B.1 impairment losses	143				72	
B.2 losses on sale						
B.3 transfers from other impaired exposures						
B.4 other increases					5	
C. Decreases	**307**				**17**	
C.1 impairment reversals					1	
C.2 impairment reversals from collections	123				9	
C.3 gains on sale						
C.4 derecognition						
C.5 transfer to other impaired exposures						
C.6 other decreases	184				7	
D. Closing total impairments	**1,719**				**76**	
—of which: receivables sold but not derecognized	18				7	

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

(In thousands of Euro)	At December 31, 2014			
	Non-performing	Doubtful	Restructured exposures	Impaired past due exposures
Source/Category				
A. Opening total impairments	**2,267**			**625**
—of which: receivables sold but not derecognized				
B. Increases	**56**	**1**		**675**
B.1 impairment losses	56	1		670
B.1bis losses on sale				
B.2 transfers from other impaired exposures				1
B.3 other increases				4
C. Decreases	**441**	**1**		**1,283**
C.1 impairment reversals				
C.2 impairment reversals from collections	441			
C.2bis gains on sale				
C.3 derecognition				
C.4 transfer to other impaired exposures		1		
C.5 other decreases				1,283
D. Closing total impairments	**1,882**	**—**		**17**
—of which: receivables sold but not derecognized				

(In thousands of Euro)	At December 31, 2013			
	Non-performing	Doubtful	Restructured exposures	Impaired past due exposures
Source/Category				
A. Opening total impairments	**2,281**	**4**		**12**
—of which: receivables sold but not derecognized				
B. Increases	**799**			**625**
B.1 impairment losses	799			5
B.1bis losses on sale				
B.2 transfers from other impaired exposures				620
B.3 other increases				
C. Decreases	**(813)**	**(4)**		**(12)**
C.1 impairment reversals				
C.2 impairment reversals from collections	(41)	(4)		(12)
C.2bis gains on sale				
C.3 derecognition	(100)			
C.4 transfer to other impaired exposures	(639)			
C.5 other decreases	(33)			
D. Closing total impairments	**2,267**	**—**	**—**	**625**
—of which: receivables sold but not derecognized				

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

A.2 Classification of exposures according to external and internal ratings

A.2.1 Group—Breakdown of on and off-balance sheet credit exposures by external rating class

(In thousands of Euro)	External rating classes Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	No rating	Total at December 31, 2015
Breakdown of credit exposure on and off-statement by rating classes								
A. On-balance sheet exposures		3,145,026	28,734				96,295	3,270,055
B. Derivatives								—
B.1 Financial derivatives								—
B.2 Credit derivatives								—
C. Guarantees provided								—
D. Commitments to disburse funds							117,461	117,461
E. Other								—
Total	**—**	**3,145,026**	**28,734**	**—**	**—**	**—**	**213,756**	**3,387,516**

(In thousands of Euro)	External rating classes Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	No rating	Total at December 31, 2014
Breakdown of credit exposure on and off-statement by rating classes								
A. On-balance sheet exposures		2,886,494	21,938				50,002	2,958,434
B. Derivatives								
B.1 Financial derivatives								
B.2 Credit derivatives								
C. Guarantees provided							22	22
D. Commitments to disburse funds							11,280	11,280
E. Other								
Total	**—**	**2,886,494**	**21,938**	**—**	**—**	**—**	**61,304**	**2,969,736**

(In thousands of Euro)	External rating classes Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	No rating	Total at December 31, 2013
Breakdown of credit exposure on and off-statement by rating classes								
A. On-balance sheet exposures		1,319,228					44,792	1,364,020
B. Derivatives								
B.1 Financial derivatives								
B.2 Credit derivatives								
C. Guarantees provided							22	22
D. Commitments to disburse funds								
E. Other								
Total	**—**	**1,319,228**	**—**	**—**	**—**	**—**	**44,814**	**1,364,042**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

This table includes under "On-balance sheet exposures" the following asset items from the Group's financial statements:

- Item 20—Financial assets held for trading, amounting to €5 thousand at December 31, 2013;
- Item 40—Available-for-sale financial assets (only debt instruments), amounting to €429,414 thousand at December 31, 2015, €370,156 thousand at December 31, 2014 and €81,992 thousand at December 31, 2013;
- Item 50—Held-to-maturity financial assets, amounting to €822,859 thousand at December 31, 2015;
- Item 60—Receivables with banks, amounting to €55,778 thousand at December 31, 2015, €77,389 thousand at December 31, 2014 and €118,197 thousand at December 31, 2013, corresponding to the credit balances in the current accounts of BFF and Farmafactoring España S.A. at the end of the year;
- Item 70—Due from customers, amounting to €1,962,004 thousand at December 31, 2015, €1,554,957 thousand at December 31, 2014 and €1,163,827 thousand at December 31, 2013, equal to the sum of the outstanding exposures of BFF and Farmafactoring España S.A. at the end of each year, net of intercompany financing transactions.

The ratings supplied by the rating agency DBRS (the reference ECAI) were used to assign credit quality ratings to the debtors. A reconciliation between the risk classes and the ratings supplied by DBRS is provided below.

Credit Quality Class	ECAI DBRS Rating's Limited
1	from AAA to AAL
2	from AH to AL
3	from BBBH to BBBL
4	from BBH to BBL
5	from BH to BL
6	CCC

A.3 ***Breakdown of secured exposures by type of guarantee***

A.3.2 Guaranteed credit exposures with customers

		Collateral (1)					Personal guarantees (2)								
							Credit derivatives								
							Other derivatives				Endorsement credits				
(In thousands of Euro)	Net exposure value	Mortgaged property	Property with finance leases	Securities	Other collateral	CLN	Governments and central banks	Other public entities	Banks	Other subjects	Governments and central banks	Other public entities	Banks	Other subjects	Total (1) + (2)
December 31, 2015															
Guaranteed credit exposures with customers															
2. Guaranteed cash credit exposures:	485												234	251	**485**
2.1 totally guaranteed	485												234	251	**485**
—impaired	234												234		**234**
2.2 partially guaranteed															
—impaired															
2. Guaranteed off balance sheet credit exposures:															
2.1 totally guaranteed															
—impaired															
2.2 partially guaranteed															
—impaired															

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

		Collateral (1)					Personal guarantees (2)								
							Credit derivatives								
							Other derivatives				Endorsement credits				
(In thousands of Euro)	Net exposure value	Mortgaged property	Property with finance leases	Securities	Other collateral	CLN	Governments and central banks	Other public entities	Banks	Other subjects	Governments and central banks	Other public entities	Banks	Other subjects	Total(1)+(2)
December 31, 2014															
Guaranteed credit exposures with customers															
2. Guaranteed on balance sheet credit exposures:	529												427	102	**529**
2.1 totally guaranteed	529												427	102	**529**
—impaired	427												427		**427**
2.2 partially guaranteed															
—impaired															
2. Guaranteed off balance sheet credit exposures:															
2.1 totally guaranteed															
—impaired															
2.2 partially guaranteed															
—impaired															

B. Breakdown and concentration of credit exposures

B.1 Group—Breakdown by segment of on-balance sheet and off-balance sheet credit exposures with customers (carrying amount)

	At December 31, 2015					
	Governments			Other public entities		
(In thousands of Euro)	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
Exposures/Counterparties						
A. On-balance sheet exposures						
A.1 Non-performing loans				1,229	451	
—forborne exposures						
A.2 Unlikely to pay exposures						
—forborne exposures						
A.3 Impaired past due exposures	31			9,543	17	
—forborne exposures						
A.4 Not impaired exposures	1,533,844		499	1,584,139		3,225
—forborne exposures						
Total A	**1,533,875**	**—**	**499**	**1,594,911**	**468**	**3,225**
B. Off-balance sheet exposures						
B.1 Non-performing loans						
B.2 Unlikely to pay exposures						
B.3 Other impaired exposures						
B.4 Not impaired exposures	7,360			18,861		
Total B	**7,360**	**—**		**18,861**		**—**
Total (A+B)	**1,541,235**	**—**	**499**	**1,613,772**	**468**	**3,225**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

(In thousands of Euro)	At December 31, 2014					
	Governments			Other public entities		
	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
Exposures/Counterparties						
A. On-balance sheet exposures						
A.1 Non-performing loans				110	576	
A.2 Doubtful exposures						
A.3 Restructured exposures						
A.4 Impaired past due exposures	5,247	9		3,284	5	
A.5 Other exposures	1,435,839		179	1,386,763		2,446
Total A	**1,441,086**	**9**	**179**	**1,390,157**	**581**	**2,446**
B. Off-balance sheet exposures						
B.1 Non-performing loans						
B.2 Doubtful loans						
B.3 Other impaired past due exposures						
B.4 Other exposures						
Total B						
Total (A+B)	**1,441,086**	**9**	**179**	**1,390,157**	**581**	**2,446**

(In thousands of Euro)	At December 31, 2013					
	Governments			Other public entities		
	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
Exposures/Counterparties						
A. On-balance sheet exposures						
A.1 Non-performing loans					955	
A.2 Doubtful exposures						
A.3 Restructured exposures						
A.4 Impaired past due exposures				5,798	625	
A.5 Other exposures	93,312		20	1,107,716		1,952
Total A	**93,312**	**—**	**20**	**1,113,514**	**1,580**	**1,952**
B. Off-balance sheet exposures						
B.1 Non-performing loans						
B.2 Doubtful loans						
B.3 Other impaired past due exposures						
B.4 Other exposures						
Total B	**—**	**—**	**—**	**—**	**—**	**—**
Total (A+B)	**93,312**	**—**	**20**	**1,113,514**	**1,580**	**1,952**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

(In thousands of euros)	At December 31, 2015					
	Financial companies			Insurance companies		
Exposures/Counterparties	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
A. On-balance sheet exposures						
A.1 Non-performing loans						
—forborne exposures						
A.2 Unlikely to pay exposures						
—forborne exposures						
A.3 Impaired past due exposures						
—forborne exposures						
A.4 Not impaired exposures	28,932					
—forborne exposures						
Total A	**28,932**					
B. Off-balance sheet exposures						
B.1 Non-performing loans						
B.2 Unlikely to pay exposures						
B.3 Other impaired exposures						
B.4 Not impaired exposures						
Total B						
Total (A+B)	**28,932**					

(In thousands of Euro)	At December 31, 2014					
	Financial companies			Insurance companies		
Exposures/Counterparties	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
A. On-balance sheet exposures						
A.1 Non-performing loans						
A.2 Doubtful exposures						
A.3 Restructured exposures						
A.4 Impaired past due exposures						
A.5 Other exposures	13,588		1			
Total A	**13,588**	**—**	**1**	—	—	—
B. Off-balance sheet exposures						
B.1 Non-performing loans						
B.2 Doubtful loans						
B.3 Other impaired past due exposures						
B.4 Other exposures	11,280					
Total B	11,280			—	—	—
Total (A+B)	**24,868**	**—**	**1**	**—**	**—**	**—**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

(In thousands of Euro)	At December 31, 2013					
	Financial companies			Insurance companies		
	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
Exposures/Counterparties						
A. On-balance sheet exposures						
A.1 Non-performing loans						
A.2 Doubtful exposures						
A.3 Restructured exposures						
A.4 Impaired past due exposures						
A.5 Other exposures	28,949					
Total A	**28,949**	—	—	—	—	—
B. Off-balance sheet exposures						
B.1 Non-performing loans						
B.2 Doubtful loans						
B.3 Other impaired past due exposures						
B.4 Other exposures						
Total B	—	—	—	—	—	—
Total (A+B)	**28,949**	**—**	**—**	**—**	**—**	**—**

(In thousands of Euro)	At December 31, 2015					
	Non-financial businesses			Other subjects		
	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
Exposures/Counterparties						
A. On-balance sheet exposures						
A.1 Non-performing loans	234	850		1,044	418	
—forborne exposures						
A.2 Unlikely to pay exposures						
—forborne exposures						
A.3 Impaired past due exposures	33,473	59		186		
—forborne exposures						
A.4 Not impaired exposures	6,491		8	15,131		18
—forborne exposures						
Total A	**40,198**	**909**	**8**	**16,361**	**418**	**18**
B. Off-balance sheet exposures						
B.1 Non-performing loans						
B.2 Unlikely to pay exposures						
B.3 Other impaired exposures						
B.4 Not impaired exposures	91,240					
Total B	**91,240**					
Total (A+B)	**131,438**	**909**	**8**	**16,361**	**418**	**18**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

(In thousands of Euro)	At December 31, 2014					
	Non-financial businesses			Other subjects		
	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
Exposures/Counterparties						
A. On-balance sheet exposures						
A.1 Non-performing loans	427	851		2,400	456	456
A.2 Doubtful exposures				62		
A.3 Restructured exposures						
A.4 Impaired past due exposures	623	1		625	1	
A.5 Other exposures	23,701		38	8,376		5
Total A	**24,751**	**852**	**38**	**11,463**	**457**	**461**
B. Off-balance sheet exposures						
B.1 Non-performing loans						
B.2 Doubtful loans						
B.3 Other impaired past due exposures						
B.4 Other exposures						
Total B						
Total (A+B)	**24,751**	**852**	**38**	**11,463**	**457**	**461**

(In thousands of Euro)	At December 31, 2013					
	Non-financial businesses			Other subjects		
	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
Exposures/Counterparties						
A. On-balance sheet exposures						
A.1 Non-performing loans		914		2,368	398	
A.2 Doubtful exposures	130			65		
A.3 Restructured exposures						
A.4 Impaired past due exposures				5		
A.5 Other exposures	2,291			5,184		
Total A	**2,421**	**914**	**—**	**7,622**	**398**	**—**
B. Off-balance sheet exposures						
B.1 Non-performing loans						
B.2 Doubtful loans						
B.3 Other impaired past due exposures						
B.4 Other exposures						
Total B	**—**	**—**	**—**	**—**	**—**	**—**
Total (A+B) at December 31, 2013	**2,421**	**914**	**—**	**7,622**	**398**	**—**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

B.2 Group—Breakdown by geographical area of on-balance sheet and off-balance sheet credit exposures with customers (carrying amount)

	At December 31, 2015									
	Italy		Other European Countries		Americas		Asia		Rest of the world	
(In thousands of Euro)	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments
Exposures/Geographic areas										
A. On-balance sheet exposures										
A.1 Non-performing loans	2,507	1,719								
A.2 Unlikely to pay exposures										
A.3 Impaired past due exposures	43,220	76	14							
A.4 Not impaired exposures	2,947,189	3,700	221,347	50						
Total A	**2,992,916**	**5,495**	**221,361**	**50**	**—**	**—**	**—**	**—**	**—**	**—**
B. Off-balance sheet exposures										
B.1 Non-performing loans										
B.2 Unlikely to pay exposures										
B.3 Other impaired exposures										
B.4 Not impaired exposures	117,461	—								
Total B	**117,461**									
Total (A+B)	**3,110,377**	**5,495**	**221,361**	**50**	**—**	**—**	**—**	**—**	**—**	**—**

	At December 31, 2014									
	Italy		Other European Countries		Americas		Asia		Rest of the world	
(In thousands of Euro)	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments
Exposures/Geographic areas										
A. On-balance sheet exposures										
A.1 Non-performing loans	2,936	1,883								
A.2 Doubtful exposures	62									
A.3 Restructured exposures										
A.4 Impaired past due exposures	9,779	16								
A.5 Other exposures	2,598,990	2,638	269,278	30						
Total A	**2,611,767**	**4,537**	**269,278**	**30**	**—**	**—**	**—**	**—**	**—**	**—**
B. Off-balance sheet exposures										
B.1 Non-performing loans										
B.2 Doubtful loans										
B.3 Other impaired past due exposures										
B.4 Other exposures	11,280									
Total B	**11,280**				**—**	**—**	**—**	**—**	**—**	**—**
Total (A+B)	**2,623,047**	**4,537**	**269,278**	**30**	**—**	**—**	**—**	**—**	**—**	**—**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

	At December 31, 2013									
	Italy		Other European Countries		Americas		Asia		Rest of the world	
(In thousands of Euro)	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments
Exposures/Geographic areas										
A. On-balance sheet exposures										
A.1 Non-performing loans	2,368	2,267								
A.2 Doubtful exposures	196									
A.3 Restructured exposures										
A.4 Impaired past due exposures	5,803	625								
A.5 Other exposures	1,191,299	1,973	46,152							
Total A	**1,199,666**	**4,865**	**46,152**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
B. Off-balance sheet exposures										
B.1 Non-performing loans										
B.2 Doubtful loans										
B.3 Other impaired past due exposures										
B.4 Other exposures										
Total B	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total (A+B)	**1,199,666**	**4,865**	**46,152**	**—**	**—**	**—**	**—**	**—**	**—**	**—**

	At December 31, 2015							
	Italy—Northwest		Italy—Northeast		Italy—Central		Italy South and Islands	
(In thousands of Euro)	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments
Exposures/Geographic areas								
A. On-balance sheet exposures								
A.1 Non-performing loans	914	346	397	58	131	951	1,077	363
A.2 Unlikely to pay exposures								
A.3 Impaired past due exposures	2,300	4	1,047	2	2,705	5	37,168	66
A.4 Not impaired exposures	165,823	272	81,816	138	1,884,331	1,852	815,208	1,438
Total A	**169,037**	**622**	**83,260**	**198**	**1,887,167**	**2,808**	**853,453**	**1,867**
B. Off-balance sheet exposures								
B.1 Non-performing loans								
B.2 Unlikely to pay exposures								
B.3 Other impaired exposures								
B.4 Not impaired exposures	5,539		4,157		102,038		5,726	
Total B	**5,539**	**—**	**4,157**	**—**	**102,038**	**—**	**5,726**	**—**
Total (A+B)	**174,576**	**622**	**87,417**	**198**	**1,989,205**	**2,808**	**859,179**	**1,867**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

	At December 31, 2014							
	Italy—Northwest		Italy—Northeast		Italy—Central		Italy South and Islands	
(In thousands of Euro)	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments
Exposures/Geographic areas								
A. On-balance sheet exposures								
A.1 Non-performing loans	2,400	385	427		110	1,152		346
A.2 Doubtful exposures	33	—			29	—		
A.3 Restructured exposures								
A.4 Impaired past due exposures	625	1	10	—	6,902	11	2,242	4
A.5 Other exposures	191,079	285	107,645	159	1,638,446	1,117	661,821	1,077
Total A	**194,137**	**671**	**108,082**	**159**	**1,645,487**	**2,280**	**664,063**	**1,427**
B. Off-balance sheet exposures								
B.1 Non-performing loans								
B.2 Doubtful loans								
B.3 Other impaired past due exposures								
B.4 Other exposures	11,280							
Total B	**11,280**							
Total (A+B)	**205,417**	**671**	**108,082**	**159**	**1,645,487**	**2,280**	**664,063**	**1,427**

	At December 31, 2013							
	Italy—Northwest		Italy—Northeast		Italy—Central		Italy South and Islands	
(In thousands of Euro)	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments
Exposures/Geographic areas								
A. On-balance sheet exposures								
A.1 Non-performing loans	2,354	824				1,096	14	347
A.2 Doubtful exposures	62				134			
A.3 Restructured exposures								
A.4 Impaired past due exposures	5		11		4,270	622	1,517	3
A.5 Other exposures	158,455	222	114,908	206	478,424	720	439,512	825
Total A	**160,876**	**1,046**	**114,919**	**206**	**482,828**	**2,438**	**441,043**	**1,175**
B. Off-balance sheet exposures								
B.1 Non-performing loans								
B.2 Doubtful loans								
B.3 Other impaired past due exposures								
B.4 Other exposures								
Total B	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total (A+B)	**160,876**	**1,046**	**114,919**	**206**	**482,828**	**2,438**	**441,043**	**1,175**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

B.3 Group—Breakdown by geographical area of on-balance sheet and off-balance sheet credit exposures with banks (carrying amount)

	At December 31, 2015									
	Italy		Other European Countries		Americas		Asia		Rest of the world	
(In thousands of Euro)	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments
Exposures/Geographic areas										
A. On-balance sheet exposures										
A.1 Non-performing loans										
A.2 Unlikely to pay exposures										
A.3 Impaired past due exposures										
A.4 Not impaired exposures	55,393		385							
Total A	**55,393**	—	**385**	—	—	—	—	—	—	—
B. Off-balance sheet exposures										
B.1 Non-performing loans										
B.2 Unlikely to pay exposures										
B.3 Other impaired exposures										
B.4 Not impaired exposures										
Total B	—	—	—	—	—	—	—	—	—	—
Total (A+B)	**55,393**	—	**385**	—	—	—	—	—	—	—

	At December 31, 2014									
	Italy		Other European Countries		Americas		Asia		Rest of the world	
(In thousands of Euro)	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments
Exposures/Geographic areas										
A. On-balance sheet exposures										
A.1 Non-performing loans										
A.2 Doubtful exposures										
A.3 Restructured exposures										
A.4 Impaired past due exposures										
A.5 Other exposures	74,718		2,671							
Total A	**74,718**		**2,671**	—	—	—	—	—	—	—
B. Off-balance sheet exposures										
B.1 Non-performing loans										
B.2 Doubtful loans										
B.3 Other impaired past due exposures										
B.4 Other exposures	22									
Total B	**22**			—	—	—	—	—	—	—
Total (A+B)	**74,740**		**2,671**	—	—	—	—	—	—	—

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

	At December 31, 2014									
	Italy		Other European Countries		Americas		Asia		Rest of the world	
(In thousands of Euro)	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments
Exposures/Geographic areas										
A. On-balance sheet exposures										
A.1 Non-performing loans										
A.2 Doubtful exposures										
A.3 Restructured exposures										
A.4 Impaired past due exposures										
A.5 Other exposures	116,493		1,704							
Total A	**116,493**	**—**	**1,704**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
B. Off-balance sheet exposures										
B.1 Non-performing loans										
B.2 Doubtful loans										
B.3 Other impaired past due exposures										
B.4 Other exposures	27									
Total B	**27**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total (A+B)	**116,520**	**—**	**1,704**	**—**	**—**	**—**	**—**	**—**	**—**	**—**

	At December 31, 2015							
	Italy—Northwest		Italy—Northeast		Italy—Central		Italy South and Islands	
(In thousands of Euro)	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments
Exposures/Geographic areas								
A. On-balance sheet exposures								
A.1 Non-performing loans								
A.2 Unlikely to pay exposures								
A.3 Impaired past due exposures								
A.4 Not impaired exposures	51,495		1,909		1,389		600	
Total A	**51,495**	**—**	**1,909**	**—**	**1,389**	**—**	**600**	**—**
B. Off-balance sheet exposures								
B.1 Non-performing loans								
B.2 Unlikely to pay exposures								
B.3 Other impaired exposures								
B.4 Not impaired exposures								
Total B	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total (A+B)	**51,495**	**—**	**1,909**	**—**	**1,389**	**—**	**600**	**—**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

	At December 31, 2014							
	Italy—Northwest		Italy—Northeast		Italy—Central		Italy South and Islands	
(In thousands of Euro)	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments
Exposures/Geographic areas								
A. On-balance sheet exposures								
A.1 Non-performing loans								
A.2 Doubtful exposures								
A.3 Restructured exposures								
A.4 Impaired past due exposures								
A.5 Other exposures	23,250		9,841		40,071		1,556	
Total A	**23,250**	**—**	**9,841**	**—**	**40,071**	**—**	**1,556**	**—**
B. Off-balance sheet exposures								
B.1 Non-performing loans								
B.2 Doubtful loans								
B.3 Other impaired past due exposures								
B.4 Other exposures					22			
Total B		**—**		**—**	**22**	**—**		**—**
Total (A+B)	**23,250**	**—**	**9,841**	**—**	**40,093**	**—**	**1,556**	**—**

	At December 31, 2013							
	Italy—Northwest		Italy—Northeast		Italy—Central		Italy South and Islands	
(In thousands of Euro)	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments	Net exposure	Exposure total value adjustments
Exposures/Geographic areas								
A. On-balance sheet exposures								
A.1 Non-performing loans								
A.2 Doubtful exposures								
A.3 Restructured exposures								
A.4 Impaired past due exposures								
A.5 Other exposures	27,972		39,831		45,313		3,377	
Total A	**27,972**	**—**	**39,831**	**—**	**45,313**	**—**	**3,377**	**—**
B. Off-balance sheet exposures								
B.1 Non-performing loans								
B.2 Doubtful loans								
B.3 Other impaired past due exposures								
B.4 Other exposures	5				22			
Total B	**5**	**—**	**—**	**—**	**22**	**—**	**—**	**—**
Total (A+B)	**27,977**	**—**	**39,831**	**—**	**45,335**	**—**	**3,377**	**—**

B.4 Large exposures

At December 31, 2015, 2014 and 2013 there were, respectively, 15, 10 and 19 "major risks" meaning—as specified in Bank of Italy Circular No. 263 of December 27, 2006 "New prudential supervision regulations for banks" and subsequent updates—risk positions equal to or higher than 10% of Own Funds.

At December 31, 2015, 2014 and 2013, the nominal (unweighted) amount of these positions was €2,739,230 thousand, €2,284,815 thousand and €548,398 thousand, respectively, while the weighted positions amounted to €264,575 thousand, €211,367 thousand and €450,709 thousand, respectively.

However, none of these positions exceed the individual concentration limit of 25% of the Group's Own Funds.

C. Securitization transactions

This section presents "qualitative" and "quantitative" information about transactions for BFF's securitization and asset sale activities.

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

C.1—Securitization transactions

Information on the transaction with "Deutsche Bank—Farmafactoring SPV I S.r.l."

Qualitative information

Strategies, processes and objectives

This transaction, originally structured in October 2012, was renewed in July 2014. The securitization transaction with the Deutsche Bank Group was renegotiated in 2015. This transaction, which involves the non-recourse sale of receivables owed by Local Healthcare Organizations and Hospitals, was carried out with the aim of diversifying funding activities.

Characteristics of the transaction

Pursuant to Law No. 130/99, the receivables were sold to an SPV, i.e., Farmafactoring SPV I S.r.l., which financed the purchase of the receivables by issuing securities for €150 million, underwritten by Deutsche Bank AG.

The renewed structure provides for a revolving period valid until June 30, 2016, during which revolving sales will be made against collections of receivables, in order to maintain the contractually stipulated collateralization ratio. At the end of the revolving period, there will be an amortization period correlating to the residual life of the outstanding receivables until full repayment of the securities

Description of the risk profile

BFF, as the originator and subordinated loan provider, maintains a role in the securitization transaction, even though it sells the receivables on a non-recourse basis. This transaction calls for a credit enhancement mechanism through an overcollateralization ratio (equal to 133.33% of the amount of the securities issued) and a subordinated loan carried by BFF.

Under the contract, BFF has an option for early termination of the revolving phase in the months of January, April, July and October 2015 against payment of consideration. In that case, BFF can decide whether to start the amortization phase during which the senior notes will be repaid or directly repay the senior notes by buying back the remaining portfolio.

At the end of the transaction, subsequent to the repayment of the securities and other senior transaction expenses, all the remaining amounts from the collection of the receivables sold, including late-payment interest, will belong to BFF, in its capacity as underwriter of the subordinated loan. Because of this condition, together with the Company's right to buy back and/or substitute the receivables at any time, all of the risks and benefits of the transaction were not transferred to the assignee but remained with BFF. Consequently, the securitization risk is included in the credit risk.

Quantitative information

Type of financial instruments held

BFF does not hold any financial instruments connected with the abovementioned transaction.

Sub-servicer activity

BFF, in its capacity as collection agent, handles receivable recovery and collection activities on behalf of the servicer Zenith Service S.p.A. In connection with all of the sales of receivables made to the SPV Farmafactoring SPV I S.r.l., the face amount of the outstanding receivables handled by the Company totaled €250.5 million, €227 million and €141.5 million at December 31, 2015, 2014 and 2013, respectively.

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

Information on the transaction with "Banca IMI—FF Finance S.r.l."

Qualitative information

Strategies, processes and objectives

In December 2013, the securitization transaction that BFF structured by Banca IMI in June 2011 was renewed for an additional 18 months (expiration in January 2016). This transaction, which involves the non-recourse sale of receivables owed by Local Healthcare Organizations and Hospitals, was carried out with the aim of diversifying funding activities.

Characteristics of the transaction

Pursuant to Law No. 130/99, the receivables were sold to the SPV FF Finance S.r.l., which financed the purchase of the receivables by issuing securities. During the 18 months of the transaction's revolving phase, revolving sales will be made against collections of receivables, in order to maintain the contractually stipulated collateralization ratio. At the end of the revolving period there will be a six-month amortization period during which the securities will be repaid.

Description of the risk profile

BFF, as the originator and subordinated loan provider, maintains a role in the securitization transaction, even though it sells the receivables on a non-recourse basis. This transaction calls for a credit enhancement mechanism through an overcollateralization ratio (equal to 125.66% at December 31, 2014 and 129.30% at December 31, 2013) and a subordinated loan carried by BFF.

On the January 25, 2016 payment date, the SPV can exercise a put option to transfer back to BFF any receivables still outstanding. At the end of the transaction, subsequent to the repayment of the securities and other senior transaction expenses, all the remaining amounts from the collection of the receivables sold, including late-payment interest, will belong to BFF, in its capacity as underwriter of the subordinated loan.

As a result of the above, all of the risks and benefits of the transaction were not transferred to the assignee but remained with BFF and, therefore, the securitization risk is included in the credit risk.

Quantitative information

Type of financial instruments held

In December 2013, when the transaction was renewed, the structure of the securities was modified, making the transaction more flexible. As a result, based on its financial needs, BFF has the right: i) to repay the securities at each payment date if the SPV holds excess liquidity, and ii) upon request, issue new securities on behalf of Duomo Funding Plc for up to €100 million.

Starting in January 2014, thanks to the flexibility mechanism mentioned above, the securities were partially repaid, down from €100 million (amount of the securities at December 31, 2013) to €16.65 million (amount of the securities at December 31, 2014). On January 9, 2015, the parties executed an Amendment Agreement to bring forward the end of the revolving phase from July 27, 2015 to January 26, 2015.

At January 31, 2015, the value of the notes was €0.3 million.

The Group does not hold any securities issued within the framework of the securitization transaction.

Sub-servicer activity

BFF, in its capacity as collection agent, handles receivable recovery and collection activities on behalf of the servicer Zenith Service S.p.A. In connection with all of the sales of receivables made to the SPV FF

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

Finance S.r.l., the face amount of the outstanding receivables handled by the Company totaled about €21.3 million at December 31, 2014 and €120.3 million at December 31, 2013.

Please note that the repayment of the senior notes of this securitization program was completed ahead of schedule on February 25, 2015. In March 2015, agreements were signed with the SPV (issuer), the Intesa SanPaolo Group (Account Bank and Cash Manager), Duomo Funding (Noteholder) and other transaction counterparties for the closing of the securitization program, sanctioning:

- cancellation of all contracts relating to the transaction;
- buyback, by Banca Farmafactoring S.p.A., of the receivables portfolio still outstanding with the SPV and the debit note issued and not yet collected.

In 2015, the SPV FF Finance S.r.l. was liquidated and dissolved.

Information on the transaction with "BayernLB—Farmafactoring SPV II S.r.l."

Qualitative information

Strategies, processes and objectives

A securitization transaction that the Company structured by BayernLB AG as Bank Arranger was executed in the first quarter of 2013. This transaction, which had a scheduled duration of 30 months and involved the non-recourse sale of receivables owed by Local Healthcare Organizations and Hospitals, was carried out with the aim of diversifying funding activities.

Characteristics of the transaction

Pursuant to Law No. 130/99, the receivables were sold to the SPV Farmafactoring SPV S.r.l., which financed the purchase of the receivables by issuing securities for €70 million, the full amount of which was underwritten by CORELUX, an SPV belonging to BayernLB Group, with liquidity provided by BayernLB AG. The structure used called for an 18-month revolving phase (renewable each year), with revolving sales made against collections on receivables, in order to maintain the contractually stipulated collateralization ratio. At the end of the revolving period there will be a 12-month amortization period during which no new sales will be executed.

Description of the risk profile

BFF, as the originator, maintains a role in the securitization transaction, even though it sells the receivables on a non-recourse basis. This transaction calls for a credit enhancement mechanism through an overcollateralization ratio (equal to 129.87% of the amount of the securities issued) and a subordinated loan carried by BFF. In addition, the SPV can exercise a put option to transfer back to BFF any receivables still outstanding on the thirtieth month. As a result of the above, all of the risks and benefits of the transaction were not transferred to the assignee but remained with BFF and, therefore, the securitization risk is included in the credit risk.

Quantitative information

Type of financial instruments held

BFF does not hold any securities issued within the framework of the securitization transaction.

Sub-servicer activity

BFF, in its capacity as collection agent, handles receivable recovery and collection activities on behalf of the servicer Zenith Service S.p.A. In connection with all of the sales of receivables made to the SPV Farmafactoring SPV II S.r.l., the face amount of the outstanding receivables handled by the Company totaled €57.7 million at December 31, 2013.

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

Please note that the senior note of this securitization program was repaid in full on September 25, 2014. On October 24, 2014, agreements were signed with the SPV (issuer), the BayernLB Group (liquidity provider of the Noteholder), Corelux Purchaser No. 1 SA (*Noteholder*) and other transaction counterparties for the closing of the securitization program, sanctioning:

- cancellation of all contracts relating to the transaction;
- buyback, by BFF of the receivables portfolio still outstanding with the SPV and the NDIs issued and not yet collected.

The financial statements of the SPVs showed as the only meaningful asset a tax receivable amounting to €126 thousand for the FF Finance program and €66 thousand for the Farmafactoring SPV II S.r.l. program. Each one of the SPVs filed an application for a refund of the respective receivable opting to receive their corporate income tax (IRES) refund through the tax account procedure, with the Bank providing a four-year surety. In order to facilitate the dissolution of the SPVs, this receivables was transferred to the Company. After completing the transfer of the tax receivable and the amounts owed to BFF had been paid, the companies FF Finance S.r.l. and Farmafactoring SPVII S.r.l. were deleted from the Company Register. BFF, having become the owner of the tax receivable, is proceeding with the activities needed to receive the corporate income tax refund from the Revenue Agency.

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

Group—Exposures arising from securitization transactions broken down by quality of underlying assets

	At December 31, 2014																	
	On-balance sheet exposures						Guarantees provided						Credit line					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
(In thousands of Euro)	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure
Quality of underlying assets/ Exposure																		
A. With own underlying assets:	**242,685**	**85,386**																
a) Impaired																		
b) Other	242,685	85,386																
B. With third-party underlying assets:																		
a) Impaired																		
b) Other																		

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

	At December 31, 2013																	
	On-balance sheet exposures						Guarantees provided						Credit line					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
(In thousands of Euro)	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure
Quality of underlying assets/ Exposure																		
A. With own underlying assets:	**307,994**	**156,938**																
a) Impaired																		
b) Other	307,994	156,938																
B. With third-party underlying assets:																		
a) Impaired																		
b) Other																		

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

C.2 Group—Exposure arising from the main "in-house" securitization transactions broken down by type of securitized asset and type of exposure

	At December 31, 2015																	
	On-balance sheet exposures						Guarantees provided						Credit line					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
(In thousands of Euro)	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.
Type of securitized assets/Exposure																		
A. Full derecognition																		
B. Partial derecognition																		
C. Not derecognized	**87,837**	**(40)**																
C.1 Farmafactoring SPVI																		
—Factoring	87,837	(40)																

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

	At December 31, 2014																	
	On-balance sheet exposures						Guarantees provided						Credit line					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
(In thousands of Euro)	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.
Type of securitized assets/Exposure																		
A. Full derecognition																		
B. Partial derecognition																		
C. Not derecognized	**85,386**	**41**																
C.1 FF Finance Srl—Factoring	18,005	4																
C.2 Farmafactoring SPVI—Factoring	67,381	37																
C.3 Farmafactoring SPVII—Factoring																		

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

	At December 31, 2013																	
	On-balance sheet exposures						Guarantees provided						Credit line					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
(In thousands of Euro)	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.	Carrying amount	Impair. loss/ rev.
Type of securitized assets/Exposure																		
A. Full derecognition																		
B. Partial derecognition																		
C. Not derecognized	**156,938**	**(12)**																
C.1 FF Finance Srl—Factoring	116,120	93																
C.2 Farmafactoring SPVI—Factoring	28,018	(2)																
C.3 Farmafactoring SPVII—Factoring	12,800	(102)																

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

C.6 Group—Equity interests in securitization SPVs at December 31, 2015

			Assets			Liabilities		
(In millions of Euro)	Head office	Consolidation	Receivables	Debt securities	Other	Senior	Mezzanine	Junior
Securitization Name/SPV name								
Farmafactoring SPV I S.r.l.	Milan—Via Statuto 10	full	311,234		16	150,000		

E—Sales transactions

A. Financial assets sold and not fully derecognized

Qualitative information

The disclosure required by IFRS 7, Paragraph 42D, Letters a), b) and c), regarding the nature of the transferred assets, the relationship between them and the associated liabilities and corresponding risks to which BFF is exposed is provided below. As described earlier in these Notes, at December 31, 2015, the following transaction was outstanding for the securitization of healthcare receivables, which were sold but not derecognized since all the risks and benefits of ownership were not transferred upon sale:

- A securitization transaction structured by Deutsche Bank was launched in October 2012 and renewed in October 2013. Similarly to the transaction with the vehicle FF Finance S.r.l., the receivables were sold to the SPV Farmafactoring SPV I S.r.l. and not derecognized. With regard to this transaction, the amount of receivables sold but not derecognized totaled €233,483 thousand at December 31, 2015, €222,071 thousand at December 31, 2014 and €136,001 thousand at December 31, 2013. Other "Due from customers," which amounted to €418,031 thousand and €252,579 thousand at December 31, 2015 and 2014, respectively, represent receivables pledged as collateral for financing transactions with Ifitalia and Unicredit Factoring. In addition, reverse repos amounting to about €920 million and about €595 million were outstanding at December 31, 2015 and 2014, respectively. These transactions were executed to refinance the Group's securities portfolio.

At December 31, 2013 and 2014, the following transactions were outstanding for the securitization of healthcare receivables, which were sold but not derecognized since the transaction did not meet the derecognition requirements, as all of the risks and benefits of ownership were not transferred upon sale:

- The securitization transaction structured by Banca IMI in which the receivables were sold to the vehicle FF Finance S.r.l. and not derecognized was launched in 2011. With regard to this transaction, the amount of receivables sold but not derecognized totaled €21,016 thousand at December 31, 2014 and €116,332 thousand at December 31, 2013. This transaction was closed out in the first quarter of 2015.

- Another transaction for the securitization of healthcare receivables structured by BayerLB was launched in the first quarter of 2013. Similarly to previous transactions, the receivables were sold to the SPV Farmafactoring SPV II S.r.l. and not derecognized. With regard to this transaction, the amount of receivables sold but not derecognized totaled €56,224 thousand at December 31, 2013. This transaction was closed out in the fourth quarter of 2014

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

Quantitative information

E.1 Group—Financial assets sold but not derecognized: carrying amount and total amount

	At December 31, 2015																		
	Financial assets held for trading			**Financial assets measured at fair value**			**Financial assets available for sale**			**Financial assets held to maturity**			**Due from banks**			**Receivables and loans**			**Total**
(In thousands of Euro)	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	
Type/Portfolio																			
A. Balance sheet assets							**94,767**			**822,350**						**651,515**			**1,568,632**
1. Debt securities							94,767			822,350									917,117
2. Equity securities																			
3. Units in investments funds																			
4. Loans																651,515			651,515
B. Derivative instruments																			
Total at December 31, 2015	**—**	**—**	**—**	**—**	**—**	**—**	**94,767**	**—**	**—**	**822,350**	**—**	**—**	**—**	**—**	**—**	**651,515**	**—**	**—**	**1,568,632**
—impaired																4,658			4,658

Key:

A = financial assets sold and totally recognized (carrying amount)

B = financial assets sold and partially recognized (carrying amount)

C = financial assets sold and partially recognized (total amount)

	At December 31, 2014																		
	Financial assets held for trading			**Financial assets measured at fair value**			**Financial assets available for sale**			**Financial assets held to maturity**			**Due from banks**			**Receivables and loans**			**Total**
(In thousands of Euro)	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	
Type/Portfolio																			
A. Balance sheet assets																			
1. Debt securities										595,047									595,047
2. Equity securities																			
3. Units in investments funds																			
4. Loans																495,264			495,264
B. Derivative instruments																			
Total at December 31, 2014				**—**	**—**	**—**	**—**	**—**	**—**	**595,047**	**—**	**—**	**—**	**—**	**—**	**495,264**	**—**	**—**	**1,090,311**
—impaired																			

Key:

A = financial assets sold and totally recognized (carrying amount)

B = financial assets sold and partially recognized (carrying amount)

C = financial assets sold and partially recognized (total amount)

	At December 31, 2013																		
	Financial assets held for trading			**Financial assets measured at fair value**			**Financial assets available for sale**			**Financial assets held to maturity**			**Due from banks**			**Receivables and loans**			**Total**
(In thousands of Euro)	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	
Type/Portfolio																			
A. Balance sheet assets																**308,557**			**308,557**
1. Debt securities																			
2. Equity securities																			
3. Units in investments funds																			
4. Loans																308,557			308,557
B. Derivative instruments																			
Total at December 31, 2013	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**308,557**	**—**	**—**	**308,557**
—impaired																			

Key:

A = financial assets sold and totally recognized (carrying amount)

B = financial assets sold and partially recognized (carrying amount)

C = financial assets sold and partially recognized (total amount)

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

E.2 Group—Financial liabilities related to financial assets sold but not derecognized: carrying amount

	At December 31, 2015						
(In thousands of Euro)	Financial assets held for trading	Financial assets measured at fair value	Financial assets available for sale	Financial assets held to maturity	Due from banks	Receivables and loans	Total
Liabilities/Assets portfolio							
1. Due to customers			**94,694**	**825,777**		**417,014**	**1,337,485**
a) related to assets totally recognized			94,694	825,777		417,014	1,337,485
b) related to assets partially recognized							
2. Due to banks							
a) related to assets totally recognized							
b) related to assets partially recognized							
Total		—	**94,694**	**825,777**		**417,014**	**1,337,485**

	At December 31, 2014						
(In thousands of Euro)	Financial assets held for trading	Financial assets measured at fair value	Financial assets available for sale	Financial assets held to maturity	Due from banks	Receivables and loans	Total
Liabilities/Assets portfolio							
1. Due to customers				**595,034**		**157,299**	**752,333**
a) related to assets totally recognized				595,034		157,299	752,333
b) related to assets partially recognized							
Total	—	—	—	**595,034**		**157,299**	**752,333**

	At December 31, 2013						
(In thousands of Euro)	Financial assets held for trading	Financial assets measured at fair value	Financial assets available for sale	Financial assets held to maturity	Due from banks	Receivables and loans	Total
Liabilities/Assets portfolio							
1. Due to customers						151,056	151,056
a) related to assets totally recognized						151,056	151,056
b) related to assets partially recognized							
Total	—	—	—	—	—	**151,056**	**151,056**

1.2 Group—Market risks

1.2.1 Interest rate risk and price risk—Regulatory trading portfolio

Qualitative information

A. General remarks

The Group does not engage in activities that involve trading in financial instruments. There were no derivative transactions outstanding at December 31, 2015.

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

At December 31, 2014, the only positions included in the regulatory trading portfolio were represented by interest rate derivatives that, while used exclusively to hedge the interest rate risk in connection with purchases of non-recourse receivables, did not meet the accounting requirements for classification as "hedging instruments." Therefore, the market risk recognized by the Group represents the risk on positions relating to such financial derivatives. The interest rate risk is represented by fluctuations in the level of market interest rates that may generate adverse effects on the Company's income statement. The Group's lending activities, represented by receivables purchased on a non-recourse basis, are at fixed rates whereas funding is generally at variable rates. The exposure is given by the amount of financing subject to this risk.

The amount of derivative instruments executed to mitigate the risk of fluctuations in interest rates is determined so that a part of the funding originally at variable rates can be changed to fixed rates, correlating the amount of the hedging to the portion of funding used to finance the lending made at fixed rates. In this sense, consideration is given to the exposure of the receivables purchased, purchases in progress, the fixed rate implicit in the fees and commissions and the correlated exposure flows so as to achieve a matching of the hedged item (fixed rate on the outstanding balance) and the contractual rate on all derivative transactions.

At December 31, 2014 and 2013, the balance of derivative hedging transactions amounted to €30 million and €153 million, respectively.

Contracts outstanding

	At December 31, 2014			
	Notional value	Market fair value		Residual life in days
(In thousands of Euro)		Positive	Negative	
Transaction types				
IRS plain vanilla, STEP-UP	30,000		(46)	86
Partial total	30,000	—	(46)	86
Total	**30,000**	—	**(46)**	**86**

	At December 31, 2013			
	Notional value	Market fair value		Residual life in days
(In thousands of Euro)		Positive	Negative	
Transaction types				
IRS plain vanilla, STEP-UP	153,000	5	(548)	218
Partial total	153,000	5	(548)	218
Total	**153,000**	**5**	**(548)**	**218**

B. Management processes and methods for measuring interest rate risk and price risk

Hedging strategies follow the trend of the Euribor rates and the expectations expressed by the market that are implicit in the forward curves. At December 31, 2014, the fair value of hedging instruments was negative by €46 thousand. The fair value represents the value of the financial instrument. This value depends on the specific structure of the financial instrument and the structure of the market curves (rate curve and volatility curve) over time.

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

Any financial instrument structure, from the most simple to the most complex, can be separated or associated with one or more underlying securities of the types listed below:

1) fixed-rate component, for which the cash flows generated by interest are calculated based on the rate set, the face amount and the duration. The fair value is equal to the sum of the cash flows discounted using the established discounting factors;

2) variable-rate component, for which the forward rates are calculated based on the discount factors curve. The interest cash flows are estimated using the forward rates. The fair value is equal to the sum of the discounted cash flows. At December 31, 2014, due to the trend recorded by the interest rate curve and the reduction in the amount of outstanding derivatives, there was an improvement compared with the data at the end of the previous year (the fair value of the hedging instruments at December 31, 2013 was negative by €543 thousand, with a positive impact on the income statement of €497 thousand). There was also a full correlation with the rates implicit in the lending transactions carried out during the same period.

At December 31, 2013, due to the rising trend recorded by the interest rate curve, there was an improvement compared with the data at the end of the previous year (the fair value of the hedging instruments was negative by €2,244 thousand, with a positive impact on the 2013 income statement of €1,701 thousand). There was also a full correlation with the rates implicit in the lending transactions carried out during the same period.

The capital requirement for the position risk at December 31, 2014, equal to €95 thousand, was computed using the Maturity Ladder Approach, as set forth in Bank of Italy Circular No. 285. At December 31, 2012, the Group was not required to verify compliance with this requirement. This system for measuring interest rate risk calls for computing the net position for each issue, and the subsequent distribution, separately for each currency, over a period corresponding to the remaining life. This is equal to the sum of the remaining positions and netted positions, the latter weighted as established by the regulation. Consistent with the above, the reduced exposure to risk does not require the use of control tools, other than those used in the ordinary course business

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

Quantitative information

1. Regulatory trading portfolio: breakdown by residual duration (repricing date) of financial assets and liabilities on the balance sheet and financial derivatives

(In thousands of Euro)	At December 31, 2014							
	on demand	up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	over 10 years	unspecified maturity
Type/Residual maturity								
1. Balance sheet assets								
1.1 Debt securities								
—with early repayment option								
—other								
1.2 Other assets								
2. Balance sheet liabilities								
2.1 Repo liabilities								
2.2 Other liabilities								
3. Financial derivatives	**30,000**	**30,000**						
3.1 With underlying security								
—Options								
+ *long positions*								
+ *short positions*								
—Other derivatives								
+ *long positions*								
+ *short positions*								
3.2 Without underlying security	30,000	30,000						
—Options								
+ *long positions*								
+ *short positions*								
—Other derivatives	30,000	30,000						
+ *long positions*	*30,000*							
+ *short positions*		*30,000*						

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

(In thousands of Euro)	At December 31, 2013							
	on demand	up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	over 10 years	unspecified maturity
Type/Residual maturity								
1. Balance sheet assets								
1.1 Debt securities								
—with early repayment option								
—other								
1.2 Other assets	—	—	—	—	—	—	—	—
2. Balance sheet liabilities								
2.1 Repo liabilities								
2.2 Other liabilities	—	—	—	—	—	—	—	—
3. Financial derivatives		**183,000**	**35,000**	**58,000**	**30,000**			
3.1 With underlying security								
—Options								
+ *long positions*								
+ *short positions*								
—Other derivatives								
+ *long positions*								
+ *short positions*								
3.2 Without underlying security		183,000	35,000	58,000	30,000			
—Options								
+ *long positions*								
+ *short positions*								
—Other derivatives		183,000	35,000	58,000	30,000			
+ *long positions*		153,000						
+ *short positions*	—	30,000	35,000	58,000	30,000	—	—	—

1.2.2 Interest rate risk and price risk—Banking portfolio

Qualitative information

A. General issues, operational processes and methods for measuring interest rate risk

For assessing interest rate risk, the Group follows the method set forth in the prudential regulations (Annex C—Bank of Italy Circular No. 285). This method is applied monthly, in order to detect on a timely and ongoing basis any loss resulting from a market shock determined based on the annual changes in interest rates recorded during an observation period of six years, considering alternatively the first percentile (reduction) or the 99th percentile (increase) and ensuring that rates are not negative.

The sensitivity analysis of the interest rate requires the construction of a management framework that makes it possible to highlight the exposure, represented:

- On the liability side, by the total amount of loans revalued in relation to the maturity of the single utilization tranches and the derivative exposure and by funding derived from Conto Facto and from the placement of bonds.
- On the asset side, by lending represented by exposure from the purchase of non-recourse receivables, the collection of which is estimated using statistics of debtor payment times, adjusted for any settlement agreements with the individual regions and/or with significant debtors, or adjusted as a result of asset sale or by investments in the government securities portfolio.

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

The method used calls for:

- Classification of the assets and liabilities into different periods: the allocation to different periods is made, for fixed-rate assets and liabilities, based on their residual lives; for variable- rate assets and liabilities, based on the interest rate renegotiation date.
- Weighting of the net exposures within each period: asset positions and liability positions within each period are offset, obtaining a net position. Each net position, for each period, is multiplied by the weighting factors, obtained as the product of a hypothetical variation in rates and an approximation of the modified duration for each single period.
- Sum of the weighted exposures of the different periods: the weighted exposures of the different periods are added, obtaining a total weighted exposure.

The total weighted exposure represents the change in the present value of cash flows, generated by the hypothetical interest rate scenario.

The situation resulting from the application of the framework managing the interest rate risk presents, at December 31, 2015, a potential loss in the present value of cash flows, in the event of a market shock, equal to €15.3 million.

The situation resulting from the application of the framework managing the interest rate risk presents, at December 31, 2014, a potential loss in the present value of cash flows, in the event of a market shock, equal to €8.2 million.

The situation resulting from the application of the framework managing the interest rate risk presents, at December 31, 2013, a potential loss in the present value of cash flows, in the event of a market shock, equal to €7 million.

BFF regularly monitors interest rate risk, as well its management, through a specific reporting.

The acceptance of interest rate risk in connection with BFF's funding activity can only occur in compliance with the policies and limits set by the Board of Directors and it is governed by specific powers delegated in this area, which set independence limitations for the parties authorized to operate in the Finance Department.

The corporate functions responsible for ensuring the proper management of interest rate risk are the Finance Department, the Risk Management function and senior management, which annually submits to the Board of Directors proposals for lending and funding policies and interest rate risk management and recommends, if necessary, any opportune actions to ensure that business is carried out consistently with the risk management policies approved by BFF.

The interest rate risk position is reported on a quarterly basis to BFF's senior management and Board of Directors, in accordance with the procedures established by the Risk Management function for senior management. Furthermore, at the operational level, the Finance Department monitors on a monthly basis the interest rate risk, as well its management, through a specific reporting.

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

C. Cash flow hedging activities

Contracts outstanding at December 31, 2014

	At December 31, 2014			
	Notional value	Market fair value		Residual life in days
(In thousands of Euro)		Positive	Negative	
Transaction types				
IRS plain vanilla, STEP-UP	55,000		(47)	162
Partial total	55,000	—	(47)	162
Total	**55,000**	—	**(47)**	**162**

Hedging transactions are aimed at neutralizing potential losses attributable to specific types of risks. BFF uses interest rate swaps (IRS) as tools to hedge the interest rate applied to its funding. Like all derivatives, hedging financial derivatives are initially recognized at fair value and subsequently measured at fair value. When a financial instrument is designated as a hedge, BFF formally documents the relationship between the hedging instrument and the hedged item. Changes in the fair value of derivatives are recognized based on evidence provided by retrospective tests at the reporting date through a one-to-one correlation of derivatives to loans and in keeping with the provisions of IAS 39 (documentation of the hedge and effectiveness test of the derivative).

The provisions of IAS 39 require:

- documenting both the hedged item and the hedging instrument;
- carrying out retrospective quantitative tests to determine the effectiveness of the hedge.

Effectiveness tests are carried out by comparing changes in the fair value of the hedging instrument with those of the hypothetical derivative. The hypothetical derivative is a derivative with technical financial characteristics equal to those of the hedged item and initial fair value equal to zero and is defined in such a way as to represent the perfect hedge.

At each reporting date, retrospective tests are performed that produce the ratio between the differences in fair value between the hedging instrument and the hypothetical derivative. If the ratio of the retrospective tests is between a range of 80% and 125% the hedge is effective; in the opposite case, the derivative is classified "for trading."

The changes in the fair value of the derivative are therefore recognized:

- through equity, if the test is effective (up to 100%). If the hedging relationship always remains effective, at the expiry of the transaction (maturity of the derivative and the loan) the equity reserve is used up without any impact on the income statement;
- through profit or loss, if the test is effective but for a value other than 100% for the fair value difference between 100% and the percentage resulting from the effectiveness test;
- fully through profit or loss, if the hedge is ineffective (below 80% or higher than 125%).

The contracts executed in 2014 (during May 2014) and outstanding at December 31, 2014 were equal to €55 million. For hedge accounting purposes these contracts hedged a pool loan for an original amount of €255 million executed on December 12, 2013 and later reduced to €215 million in August 2014. At December 31, 2014, hedging derivatives outstanding had a total a face amount of €55 million.

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

Quantitative information

1. Banking portfolio: breakdown by residual duration (by repricing date) of financial assets and liabilities

	At December 31, 2015							
(In thousands of Euro)	**on demand**	**up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**5 to 10 years**	**over 10 years**	**unspecified maturity**
Type/Residual maturity								
1. Balance sheet assets	**574,398**	**259,841**	**770,650**	**607,756**	**1,024,287**	**31,271**	**1,851**	
1.1 Debt securities		51,493	486,359	167,417	547,004			
—with early repayment option								
—other		51,493	486,359	167,417	547,004	—	—	
1.2 Loans to banks	49,989	5,788						
1.3 Loans to customers	524,409	202,560	284,291	440,339	477,283	31,271	1,851	
—current account								
—other loans	524,409	202,560	284,291	440,339	477,283	31,271	1,851	
—with early repayment option								
—other	524,409	202,560	284,291	440,339	477,283	31,271	1,851	
2. Balance sheet liabilities	**147,835**	**2,110,099**	**39,894**	**163,337**	**402,158**	**45**		
2.1 Due to customers	147,835	1,427,023	39,894	158,337	99,196	45		
—current account	25,196	93,984	39,894	158,337	99,196	45		
—other liabilities	122,639	1,333,039		—	—			
—with early repayment option								
—other	122,639	1,333,039						
2.2 Due to banks		683,076		5,000				
—current account				5,000				
—other liabilities		683,076						
2.3 Debt securities					302,962			
—with early repayment option					302,962			
—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-balance sheet transactions								
+ *long positions*								
+ *short positions*								

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

	At December 31, 2014							
(In thousands of Euro)	on demand	up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	over 10 years	unspecified maturity
Type/Residual maturity								
1. Balance sheet assets	**446,298**	**451,587**	**588,625**	**840,233**	**649,092**	**2,936**		
1.1 Debt securities		325,745	273,765	391,213	335,365			
—with early repayment option								
—other		325,745	273,765	391,213	335,365			
1.2 Loans to banks	96,807	919						
1.3 Loans to customers	349,491	124,923	314,860	449,020	313,727	2,936		
—current account								
—other loans	349,491	124,923	314,860	449,020	313,727	2,936		
—with early repayment option								
—other	349,491	124,923	314,860	449,020	313,727	2,936		
2. Balance sheet liabilities	**126,501**	**1,914,635**	**56,002**	**128,491**	**383,303**			
2.1 Due to customers	126,496	842,635	1,002	118,491	80,167			
—current account	10,567	15,655	1,002	118,491	80,167			
—other liabilities	115,929	826,980						
—with early repayment option								
—other	115,929	826,980						
2.2 Due to banks	5	905,500	55,000	10,000				
—current account	5							
—other liabilities		905,500	55,000	10,000				
2.3 Debt securities		166,500			303,136			
—with early repayment option		166,500			303,136			
—other								
2.4 Other liabilities								
—with early repayment option								
—other								
3. Financial derivatives	**55,000**		**55,000**					
3.1 With underlying security								
—Options								
+ *long positions*								
+ *short positions*								
—Other derivatives								
+ *long positions*								
+ *short positions*								
3.2 Without underlying security	55,000		55,000					
—Options	—		—					
+ *long positions*								
+ *short positions*								
—Other derivatives	55,000		55,000					
+ *long positions*	55,000							
+ *short positions*			55,000					
4. Other off-balance sheet transactions								
+ *long positions*								
+ *short positions*								

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

(In thousands of Euro) Type/Residual maturity	At December 31, 2013 on demand	up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	over 10 years	unspecified maturity
1. Balance sheet assets	**382,707**	**61,728**	**183,924**	**352,461**	**432,437**	**758**		
1.1 Debt securities			69,619		12,373			
—with early repayment option								
—other			69,619		12,373			
1.2 Loans to banks	166,808	750	638					
1.3 Loans to customers	215,899	60,978	113,667	352,461	420,064	758		
—current account								
—other loans	215,899	60,978	113,667	352,461	420,064	758		
—with early repayment option								
—other	215,899	60,978	113,667	352,461	420,064	758	—	—
2. Balance sheet liabilities	**457,066**	**416,879**	**255,000**					
2.1 Due to customers	252,115	72,379						
—current account								
—other liabilities	252,115	72,379						
—with early repayment option								
—other	252,115	72,379						
2.2 Due to banks	204,951	344,500	255,000					
—current account	9,951							
—other liabilities	195,000	344,500	255,000					
2.3 Debt securities								
—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-balance sheet transactions								
+ *long positions*								
+ *short positions*								

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

1.2.3 Exchange rate risk

Qualitative information

A. General issues, operational processes and methods for measuring exchange rate risk

Exchange rate risk is represented by the Group's exposure to fluctuations in exchange rates, considering both positions in foreign currency and those that call for indexation clauses linked to changes in the exchange rate of a specific currency.

The Group's asset portfolio is entirely denominated in euros; consequently, the risk connected with the volatility of foreign currencies is to be considered non-existent.

Quantitative information

The Group's asset portfolio is entirely denominated in euros; consequently, no methods to measure and manage this risk apply.

1.2.4 Derivatives

At December 31, 2014 and 2013, the only derivative positions were represented by interest rate contracts included in the regulatory trading portfolio. These derivatives were used exclusively to hedge the interest rate risk related to purchases of non-recourse receivables, and, limited to 2014, also the hedging portfolio. These instruments are discussed in greater detail in Paragraph 2.1—Interest rate risk and price risk—Regulatory trading portfolio earlier in this Section. The Bank did not hold any derivative positions at December 31, 2015.

A. Financial derivatives

A.1 Regulatory trading portfolio: year-end notional amounts

	At December 31					
	2015		2014		2013	
(In thousands of Euro)	Over the counter	Clearing house	Over the counter	Clearing house	Over the counter	Clearing house
Underlying assets/Derivative type						
1. Debt securities and interest rates	**—**		**30,000**		**153,000**	
a) Options						
b) *Swap*			30,000		153,000	
c) *Forward*						
d) *Futures*						
e) Other						
2. Equity securities share indexes						
a) Options						
b) *Swap*						
c) *Forward*						
d) *Futures*						
e) Other						
3. Currency and gold						
a) Options						
b) *Swap*						
c) *Forward*						
d) *Futures*						
e) Other						
4. Commodities						
5. Other underlying						
Total	**—**	**—**	**30,000**	**—**	**153,000**	**—**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

A.2 Banking portfolio: year-end notional amounts

A.2.1 Hedging derivatives

	At December 31					
	2015		2014		2013	
(In thousands of Euro)	Over the counter	Clearing house	Over the counter	Clearing house	Clearing house	Central counterparties
Underlying assets/Derivative type						
1. Debt securities and interest rates			**55,000**			
a) Options						
b) Swap			55,000			
c) Forward						
d) Futures						
e) Other						
2. Equity securities share indexes						
a) Options						
b) Swap						
c) Forward						
d) Futures						
e) Other						
3. Currency and gold						
a) Options						
b) Swap						
c) Forward						
d) Futures						
e) Other						
4. Commodities						
5. Other underlying						
Total	**—**	**—**	**55,000**	**—**	**—**	**—**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

A.3 Financial derivatives: positive fair value—breakdown by product

	At December 31					
	2015		2014		2013	
(In thousands of Euro)	Over the counter	Clearing house	Over the counter	Clearing house	Over the counter	Clearing house
Underlying assets/Derivative type						
A. Regulatory trading portfolio					**5**	
a) Options						
b) *Interest rate swaps*					5	
c) *Cross currency swap*						
d) *Equity swap*						
e) *Forward*						
f) *Futures*						
g) Others						
B. Banking portfolio—hedging derivatives						
a) Options						
b) *Interest rate swaps*						
c) *Cross currency swap*						
d) *Equity swap*						
e) *Forward*						
f) *Futures*						
g) Others						
C. Banking portfolio—other derivatives						
a) Options						
b) *Interest rate swaps*						
c) *Cross currency swap*						
d) *Equity swap*						
e) *Forward*						
f) *Futures*						
g) Others						
Total	**—**	**—**	**—**	**—**	**5**	**—**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

A.4 Financial derivatives: negative fair value—breakdown by product

	At December 31					
	2015		2014		2013	
(In thousands of Euro)	Over the counter	Clearing house	Over the counter	Clearing house	Over the counter	Clearing house
Underlying assets/Derivative type						
A. Regulatory trading portfolio	**—**		**46**		**548**	
a) Options						
b) *Interest rate swaps*			46		548	
c) *Cross currency swap*						
d) *Equity swap*						
e) *Forward*						
f) *Futures*						
g) Others						
B. Banking portfolio—hedging derivatives			**47**			
a) Options						
b) *Interest rate swaps*			47			
c) *Cross currency swap*						
d) *Equity swap*						
e) *Forward*						
f) *Futures*						
g) Others						
C. Banking portfolio—other derivatives						
a) Options						
b) *Interest rate swaps*						
c) *Cross currency swap*						
d) *Equity swap*						
e) *Forward*						
f) *Futures*						
g) Others						
Total	**—**	**—**	**93**	**—**	**548**	**—**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

A.5 OTC financial derivatives—regulatory trading portfolio: notional amounts, gross positive and negative fair value by counterparty—contracts not included in netting agreements

	At December 31, 2014						
(In thousands of Euro)	Governments and Central Banks	Other public sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other subjects
Contracts not included in netting agreements							
1. Debt securities and interest rates							
—notional amount			30,000				
—positive fair value							
—negative fair value			46				
—future exposure							
2) Equity securities and share indexes							
—notional amount							
—positive fair value							
—negative fair value							
—future exposure							
3) Currency and gold							
—notional amount							
—positive fair value							
—negative fair value							
—future exposure							
4) Other amounts							
—notional amount							
—positive fair value							
—negative fair value							
—future exposure							

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

(In thousands of Euro)	At December 31, 2013						
	Governments and Central Banks	Other public sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other subjects
Contracts not included in netting agreements							
1. Debt securities and interest rates							
—notional amount			153,000				
—positive fair value			5				
—negative fair value			548				
—future exposure			150				
2) Equity securities and share indexes							
—notional amount							
—positive fair value							
—negative fair value							
—future exposure							
3) Currency and gold							
—notional amount							
—positive fair value							
—negative fair value							
—future exposure							
4) Other amounts							
—notional amount							
—positive fair value							
—negative fair value							
—future exposure							

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

A.7 OTC financial derivatives—banking portfolio: notional amounts, gross positive and negative fair value by counterparty—contracts not included in netting agreements

	At December 31, 2014						
(In thousands of Euro)	Governments and Central Banks	Other public sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other subjects
Contracts not included in netting agreements							
1. Debt securities and interest rates							
—notional amount			55,000				
—positive fair value							
—negative fair value			47				
—future exposure							
2) Equity securities and share indexes							
—notional amount							
—positive fair value							
—negative fair value							
—future exposure							
3) Currency and gold							
—notional amount							
—positive fair value							
—negative fair value							
—future exposure							
4) Other amounts							
—notional amount							
—positive fair value							
—negative fair value							
—future exposure							

A.9 Residual maturity of OTC financial derivatives: notional amounts

	At December 31, 2014			
(In thousands of Euro)	up to 1 year	over 1 year and up to 5 years	over 5 years	Total
Underlying/ residual maturity				
A. Regulatory trading portfolio	**30,000**			**30,000**
A.1 Financial derivatives on debt securities and interest rates	30,000			30,000
A.2 Financial derivatives on equity securities and share indexes				
A.3 Financial derivatives on exchange rates and gold				
A.4 Financial derivatives on other amounts				
B. Banking portfolio	**55,000**			**55,000**
B.1 Financial derivatives on debt securities and interest rates	55,000			55,000
B.2 Financial derivatives on equity securities and share indexes				
B.3 Financial derivatives on exchange rates and gold				
B.4 Financial derivatives on other amounts				
Total	**85,000**	**—**	**—**	**85,000**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

(In thousands of Euro)	At December 31, 2013			
	up to 1 year	over 1 year and up to 5 years	over 5 years	Total
Underlying/ residual maturity				
A. Regulatory trading portfolio	**123,000**	**30,000**		**153,000**
A.1 Financial derivatives on debt securities and interest rates	123,000	30,000		153,000
A.2 Financial derivatives on equity securities and share indexes				
A.3 Financial derivatives on exchange rates and gold				
A.4 Financial derivatives on other amounts				
B. Banking portfolio				
B.1 Financial derivatives on debt securities and interest rates				
B.2 Financial derivatives on equity securities and share indexes				
B.3 Financial derivatives on exchange rates and gold				
B.4 Financial derivatives on other amounts				
Total	**123,000**	**30,000**	**—**	**153,000**

1.3 Group—Liquidity risk

Qualitative information

A. General issues, operational processes and methods for measuring liquidity risk

Liquidity risk is represented by the possibility that the Group may not be able to fulfil its payment obligations due to the inability to access funding in the financial markets, or because of restrictions on the disposal of assets. This risk is also represented by the inability to raise adequate new financial resources, in terms of amount and cost, according to operating needs, which would force the Group to slow or halt the development of activities or sustain excessive funding costs to meet its obligations, with significant adverse impacts on the profitability of its operations.

Liquidity risk may be incurred through the following risk components:

- Liquidity Mismatch Risk, which it is the risk of a mismatch between the amounts and/or timing of inflows and outflows.
- Liquidity Contingency Risk, which is the risk that future unexpected events may require a materially larger amount of liquidity than the business currently requires in a normal going concern scenario. This risk may be generated by such events as the failure to renew loans, the need to finance new activities, the difficulty in disposing of liquid assets or obtaining new loans in the event of a liquidity crisis.
- Market Liquidity Risk, which is the risk of incurring losses on liquidating assets that would be considered liquid under normal market conditions or the seller is forced to keep those assets in the absence of a market for them.
- Operational Liquidity Risk, which is the risk of being unable to fulfill payment obligations due to errors, violations, interruptions or damages caused by internal processes, persons or external events, while remaining solvent.
- Funding Risk, which is the risk of incurring a loss due to the inability to access sources of financing at an affordable cost to meet obligations and/or a possible increase in the costs of funding due to a change in rating (internal factor) and/or a widening of credit spreads (external factor).

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

The Group, as required by the provisions of the prudential supervision regulation published by the Bank of Italy, adopted a "Risk Management Regulation" and a "Treasury and Finance Regulation" aimed at maintaining a high degree of diversification, in order to reduce liquidity risk, and identifying the governance and control principles and the organizational units responsible for the operational and structural management of liquidity risk. This internal regulations define:

- the liquidity risk management criteria adopted, defined in relation to the specific operations of the Group and the potential sources of liquidity risk;
- the operating procedures through which the Group monitors this risk, which include a diversification of short-term assets (operational liquidity management) and medium-term assets (structural liquidity management);
- the criteria for defining and performing stress tests, aimed at measuring in quantitative terms the Group's ability to handle potential adverse events that could affect the level of liquidity risk;
- a contingency funding plan that specifies the strategies and operational modalities for the management of early warning, warning and crisis situations, as well as the resulting roles and responsibilities.

To ensure the implementation of the liquidity risk management and control processes, the Group adopted a governance model based on the following principles:

- separation between the processes for the management of liquidity and processes for the control of liquidity risk;
- development of processes to manage and control liquidity risk, consistent with the Group's hierarchical structure and through a process for the delegation of powers;
- sharing of the decisions and clarity of responsibilities among management, control and operational entities;
- making liquidity risk management and monitoring processes consistent with prudential supervisory guidelines.

Liquidity risk stress tests were performed for assessing the potential impact of stress scenarios on the Group's solvency conditions.

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

Quantitative information

2. *Time breakdown by residual contractual maturity of financial assets and liabilities—euro as denomination currency*

	At December 31, 2015									
(In thousands of Euro)	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
Items/Maturity										
Balance sheet assets	**572,886**	**11,622**	**48,463**	**23,432**	**177,037**	**353,056**	**622,900**	**1,437,286**	**38,646**	**—**
A.1 Government securities			11,121		42,334	67,509	177,186	945,442		
A.2 Other debt securities										
A.3 Units in investments funds										
A.4 Loans	572,886	11,622	37,342	23,432	134,703	285,547	445,714	491,844	38,646	—
—due from banks	49,989	5,788								
—customers	522,897	5,834	37,342	23,432	134,703	285,547	445,714	491,844	38,646	
Balance sheet liabilities	**145,219**	**366,365**	**278,717**	**525,855**	**79,674**	**309,626**	**371,029**	**792,092**	**45**	
B.1 Deposits and current accounts due to	22,580	23,447	7,006	14,013	79,674	189,990	225,475	336,487	45	
—banks		5,000			25,006	149,811	64,969	237,291		
—customers	22,580	18,447	7,006	14,013	54,668	40,179	160,506	99,196	45	
B.2 Debt securities						8,227		300,000		
B.3 Other liabilities	122,639	342,918	271,711	511,842		111,409	145,554	155,605		
Off-balance sheet transactions							—			
C.1 Financial derivatives with exchange of capital										
—long positions										
—short positions										
C.2 Financial derivatives without exchange of capital										
—long positions										
—short positions										
C.3 Deposits and loans to be received										
—long positions										
—short positions										
C.4 Irrevocable commitments to disburse funds							—			
—long positions										
—short positions										
C.5 Financial guarantees provided										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
—long positions										
—short positions										
C.8 Credit derivatives without exchange of capital										
—long positions										
—short positions										

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

	At December 31, 2014									
(In thousands of Euro)	**On demand**	**1 to 7 days**	**7 to 15 days**	**15 days to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Unspecified maturity**
Items/Maturity										
Balance sheet assets	**443,105**	**8,931**	**23,765**	**20,324**	**216,745**	**408,264**	**1,030,573**	**823,321**	**2,936**	**919**
A.1 Government securities	276		22,042		119,679	91,690	574,300	498,795		
A.2 Other debt securities										
A.3 Units in investments funds										
A.4 Loans	442,829	8,931	1,723	20,324	97,066	316,574	456,273	324,526	2,936	919
—due from banks	96,807									919
—customers	346,022	8,931	1,723	20,324	97,066	316,574	456,273	324,526	2,936	
Balance sheet liabilities	**126,502**	**420,000**	**206,887**	**352,920**	**105,884**	**219,009**	**130,944**	**879,613**	**166,650**	**—**
B.1 Deposits and current accounts due to	10,572	—	5,043	25,087	526	219,009	130,944	387,667	—	—
—banks	5			15,000		218,000	10,000	307,500		
—customers	10,567		5,043	10,087	526	1,009	120,944	80,167		
B.2 Debt securities								300,000	166,650	
B.3 Other liabilities	115,930	420,000	201,844	327,833	105,358			191,946		
Off-balance sheet transactions	**46**					**47**				
C.1 Financial derivatives with exchange of capital										
—long positions										
—short positions										
C.2 Financial derivatives without exchange of capital	46					47				
—long positions										
—short positions	46					47				
C.3 Deposits and loans to be received										
—long positions										
—short positions										
C.4 Irrevocable commitments to disburse funds										
—long positions										
—short positions										
C.5 Financial guarantees provided										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
—long positions										
—short positions										
C.8 Credit derivatives without exchange of capital										
—long positions										
—short positions										

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

	At December 31, 2013									
(In thousands of Euro)	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
Items/Maturity										
Balance sheet assets	**338,496**	**4,454**	**1,605**	**6,681**	**47,762**	**128,718**	**363,551**	**513,998**	**855**	
A.1 Government securities						12,554	448	68,000		
A.2 Other debt securities										
A.3 Units in investments funds										
A.4 Loans	338,496	4,454	1,605	6,681	47,762	116,164	363,103	445,998	855	
—banks	116,808	750				639				
—customers	221,688	3,704	1,605	6,681	47,762	115,525	363,103	445,998	855	
Balance sheet liabilities	**457,066**				**68,898**	**29,980**	**293,000**	**280,000**	**320,000**	
B.1 Deposits and current accounts due to	204,951				16,500	10,000	293,000	280,000		
—banks	204,951				16,500	10,000	293,000	280,000		
—customers										
B.2 Debt securities									320,000	
B.3 Other liabilities	252,115				52,398	19,980				
Off-balance sheet transactions	**552**									
C.1 Financial derivatives with exchange of capital										
—long positions										
—short positions										
C.2 Financial derivatives without exchange of capital	552									
—long positions	5									
—short positions	547									
C.3 Deposits and loans to be received										
—long positions										
—short positions										
C.4 Irrevocable commitments to disburse funds										
—long positions										
—short positions										
C.5 Financial guarantees provided										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
—long positions										
—short positions										
C.8 Credit derivatives without exchange of capital										
—long positions										
—short positions										

3. Disclosure about encumbered assets recognized in the financial statements

	At December 31, 2014				
	Encumbered		Unencumbered		
(In thousands of Euro)	CA	FV	CA	FV	Total
Types					
1. Cash and cash balances			3		3
2. Debt securities	1,033,980	1,035,044	292,109	292,470	1,326,088
3. Equity securities			23	23	23
4. Loans	255,762		1,396,922		1,652,683
5. Other financial assets					
6. Non-financial assets			53,169		53,169
Total	**1,289,742**	**1,035,044**	**1,742,226**	**292,493**	**3,031,966**

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

	At December 31, 2013				
	Encumbered		Unencumbered		
(In thousands of Euro)	CA	FV	CA	FV	Total
Types					
1. Cash and cash balances			1		1
2. Debt securities	15,903	15,903	66,089	66,089	81,992
3. Equity securities			23	23	23
4. Loans	308,557		973,467		1,282,024
5. Other financial assets			5		5
6. Non-financial assets			68,235		68,235
Total	**324,460**	**15,903**	**1,107,820**	**66,112**	**1,432,280**

Encumbered debt securities, amounting to €1,123,969 thousand at December 31, 2015, €1,033,980 thousand at December 31, 2014 and €15,903 thousand at December 31, 2013, consist of government securities used as collateral on e-MID transactions. Encumbered loans, amounting to €233,484 thousand at December 31, 2015, €242,685 thousand at December 31, 2014 and €308,557 thousand at December 31, 2013, refer to receivables sold but not derecognized, since all of the risks and benefits of ownership were not transferred upon sale. In addition, the amounts of €28,869 thousand and €13,077 thousand at December 31, 2015 and 2014, respectively, refer to margins deposited as collateral on reverse repos with Cassa di Compensazione e Garanzia.

3. Disclosure about encumbered Group-owned assets not recognized in the financial statements

	At December 31								
	2015			2014			2013		
(In thousands of Euro)	Encumbered	Unencumbered	Total	Encumbered	Unencumbered	Total	Encumbered	Unencumbered	Total
Types									
1. Other financial assets		—	—					100,000	100,000
—*Securities*			—					100,000	100,000
—*Other*									
2. Non-financial assets									
Total	—	—	—	—	—	—	—	**100,000**	**100,000**

With regard to 2013, the amount refers to the face value of the securities relating to the securitization transaction with "Banca IMI and WestLB—FF Finance S.r.l.", repurchased by BFF in the second half of 2012 after the WestLB Group indicated its interest in selling the securities. In January 2014, the program was officially reduced from the original €200 million to €100 million and the entire tranche held by BFF was repaid.

1.4 Group—Operational risk

Qualitative information

1. General issues, operational processes and methods for measuring operational risk

Operational risk is the risk of incurring a loss due to inadequacy or failures of procedures, human resources and internal systems or as a result of external events. This category includes, among other, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk also includes legal risk but not strategic and reputational risks. Operational risk therefore refers to various types of events that would not be significant individually unless analyzed together and quantified for the entire risk category.

At the Group, exposure to this category of risk is generated predominately by failures in work process and in organization and governance—human errors, computer software malfunctions, inadequate organization and control safeguards—as well as any loss of human resources in key corporate management positions.

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

On the other hand, exposure to operational risks deriving from external sources appears to be of negligible importance, partly due to the mitigation tools adopted to address such adverse events (such as, by way of example: the business continuity plan, data storage processes, back up tools, insurance policies, etc.).

The process adopted by the Group to manage and control operational risks is founded on the principle of promoting a corporate culture for managing risk and defining the appropriate standards and incentives with the aim of fostering the adoption of professional and responsible behavior at all operational levels, as well as the design, implementation and management of an integrated system for operational risk management that is adequate in relation to the nature, activities, size and risk profile.

The operational risk assessment model adopted is of the "mixed" type, meaning a model based both on qualitative assessments, linked to the mapping of the processes and to at-risk activities and the corresponding controls adopted, and on quantitative assessments, using the methodologies specified by the Bank of Italy.

Within the framework of the controls adopted regarding the exposure to operational risk, the following specific risks are also monitored by the Group:

- Money laundering risk, regarding the risk that financial and commercial counterparties and Group vendors, partners, associates and consultants may be parties to transactions that might potentially facilitate the laundering of money coming from illegal or criminal activities;
- Compliance risk, regarding the risk of legal and administrative penalties, significant financial losses or reputational losses due to failure to comply not only with laws and regulations but also with internal and conduct standards applicable to corporate activities. For this type of risk, a review is performed annually of the related assessment methodology, developed for all activities falling within the scope of the Group's regulatory framework, in accordance with a risk-based approach. More specifically, for the relevant laws that do not call for the establishment of specialized functions (i.e., privacy and occupational health and safety), the Compliance Function provides ex ante consulting support to BFF's functions and assesses ex post the adequacy of the organizational measures and control activities adopted in accordance with the Compliance Risk Assessment method. As for laws and regulations monitored by specialized functions, the Compliance Function carries out an indirect control by cooperating with the specialized functions in defining compliance risk assessment methods in addition to mapping risks and the corresponding controls (Compliance Risk Matrix).

For computing capital requirements for operational risk, the Group uses the Basic Indicator Approach—BIA, according to which capital requirements are computed by applying a regulatory coefficient to an indicator of the volume of business activity (Relevant Indicator). The Group also assesses operational risks in connection with the introduction of relevant new products, activities, processes and systems and mitigates the consequence of any operational risk that may arise through the preventive involvement of the corporate control functions and the definition of specific policies and regulations on various subjects and topics. In addition, to control the abovementioned risks, the Group adopts specific organizational models for the management of the risks regarding money laundering, occupational health and safety and information security.

Quantitative information

Based on the abovementioned methodology, the capital requirement for operational risk was equal to €24,457 thousand, €22,846 thousand and €15,056 thousand at December 31, 2015, 2014 and 2013, respectively.

SECTION 3—RISKS OF THE OTHER COMPANIES

The consolidated financial statements at December 31, 2015 reflect the aggregation of components of the financial statements of BFF, Farmafactoring España S.A. (a wholly owned subsidiary of BFF), both members of the Banking Group, the special purpose vehicle Farmafactoring SPV I s.r.l. and the Polish SPV Mediona.

PART E—INFORMATION ABOUT RISK AND RELATED HEDGING POLICIES (Continued)

The SPV Farmafactoring SPV I s.r.l. was established for the securitization transaction structured by Deutsche Bank and was included in the scope of consolidation consistent with the requirements of the IAS/IFRS accounting standards which establish the obligation to consolidate a special purpose entity when, even absent and investment relationship, the company that prepares the financial statements, in substance, controls the special purpose entity.

In any event, this company does not show further and relevant risk factors, other than those mentioned in the preceding paragraphs.

PART F—INFORMATION ABOUT CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1—Consolidated shareholders' equity

A. Qualitative information

The Group's shareholders' equity represents the aggregate of share capital, reserves, valuation reserves and profit for the year. The aggregate shareholders' equity relevant for regulatory purposes is computed in accordance with the instructions of Bank of Italy currently in effect and constitutes the reference safeguard of the prudential supervisory regulations.

B. Quantitative information

B.1 Consolidated shareholders' equity: breakdown by type of company

	At December 31, 2015				
(In thousands of Euro)	Banking Group	Insurance companies	Other companies	Gains and losses to be consolidated	Total
Items/Amounts					
Share capital	130,900				**130,900**
Share premium					**—**
Reserves	127,409				**127,409**
Capital instruments					**—**
(Treasury shares)					**—**
Valuation reserves					**—**
—Available-for-sale financial assets	481				**481**
—Property, plant and equipment					**—**
—Intangible assets					**—**
—Hedges of foreign investments					**—**
—Cash flow hedges					**—**
—Exchange rate differences					**—**
—Non-currents assets classified as held for sale					**—**
—Actuarial gains/losses relating to defined benefit pension plans	(120)				**(120)**
—Portion of valuation reserves relative to investments accounted for using the equity method					**—**
—Special revaluation laws	3,823				**3,823**
Profit (loss) for the year of the group and of third parties	68,791				**68,791**
Total	**331,284**	—	—	—	**331,284**

PART F—INFORMATION ABOUT CONSOLIDATED SHAREHOLDERS' EQUITY (Continued)

(In thousands of Euro)	At December 31, 2014				
	Banking Group	Insurance companies	Other companies	Gains and losses to be consolidated	Total
Items/Amounts					
Share capital	130,900				130,900
Share premium					
Reserves	51,481				51,481
Capital instruments					
(Treasury shares)					
Valuation reserves					
—Available-for-sale financial assets	238				238
—Property, plant and equipment					
—Intangible assets					
—Hedges of foreign investments					
—Cash flow hedges	(27)				(27)
—Exchange rate differences					
—Non-currents assets classified as held for sale					
—Actuarial gains/losses relating to defined benefit pension plans	1				1
—Portion of valuation reserves relative to investments accounted for using the equity method					
—Special revaluation laws	3,823				3,823
Profit (loss) for the year of the group and of third parties	124,378	—	—	—	124,378
Total	**310,794**	—	—	—	**310,794**

PART F—INFORMATION ABOUT CONSOLIDATED SHAREHOLDERS' EQUITY (Continued)

	At December 31, 2013				
(In thousands of Euro)	Banking Group	Insurance companies	Other companies	Gains and losses to be consolidated	Total
Items/Amounts					
Share capital	130,900				130,900
Share premium					
Reserves	48,978				48,978
Capital instruments					
(Treasury shares)					
Valuation reserves					
—Available-for-sale financial assets	396				396
—Property, plant and equipment					
—Intangible assets					
—Hedges of foreign investments					
—Cash flow hedges					
—Exchange rate differences					
—Non-currents assets classified as held for sale					
—Actuarial gains/losses relating to defined benefit pension plans	(1)				(1)
—Portion of valuation reserves relative to investments accounted for using the equity method					
—Special revaluation laws	3,823				3,823
Profit (loss) for the year of the group and of third parties	48,913				48,913
Total	**233,009**	**—**	**—**	**—**	**233,009**

PART F—INFORMATION ABOUT CONSOLIDATED SHAREHOLDERS' EQUITY (Continued)

B.2 Valuation reserves for available-for-sale financial assets: breakdown

	At December 31, 2015									
	Banking Group		Insurance companies		Other companies		Gains and losses to be consolidated		Total	
(In thousands of Euro)	Positive Reserve	Negative Reserve	Positive Reserve	Negative Reserve	Positive Reserve	Negative Reserve	Positive Reserve	Negative Reserve	Positive Reserve	Negative Reserve
Assets/Amounts										
1. Debt securities	481								481	
2. Equity securities										
3. Units in investment funds										
4. Loans										
Total	**481**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**481**	**—**

	At December 31, 2014									
	Banking Group		Insurance companies		Other companies		Gains and losses to be consolidated		Total	
(In thousands of Euro)	Positive Reserve	Negative Reserve	Positive Reserve	Negative Reserve	Positive Reserve	Negative Reserve	Positive Reserve	Negative Reserve	Positive Reserve	Negative Reserve
Assets/Amounts										
1. Debt securities	238								238	
2. Equity securities										
3. Units in investment funds										
4. Loans										
Total	**238**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**238**	**—**

	At December 31, 2013									
	Banking Group		Insurance companies		Other companies		Gains and losses to be consolidated		Total	
(In thousands of Euro)	Positive Reserve	Negative Reserve	Positive Reserve	Negative Reserve	Positive Reserve	Negative Reserve	Positive Reserve	Negative Reserve	Positive Reserve	Negative Reserve
Assets/Amounts										
1. Debt securities	396								396	
2. Equity securities										
3. Units in investment funds										
4. Loans										
Total	**396**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**396**	**—**

Available-for-sale financial assets are recognized at fair value. At the end of the reporting period, the carrying amount of the securities must be compared with their amortized cost and any difference is recognized in equity under the valuation reserves. As a result of this measurement, positive reserves of €481 thousand, €238 thousand and €396 thousand were recognized at December 31, 2015, 2014 and 2013, respectively.

PART F—INFORMATION ABOUT CONSOLIDATED SHAREHOLDERS' EQUITY (Continued)

B.3 Valuation reserves for available-for-sale financial assets: year-over-year changes

(In thousands of Euro)	At December 31, 2015			
Items/Amounts	Debt securities	Equity securities	Units in investment funds	Loans
1. Opening balance	**238**	—	—	—
2. Positive changes				
2.1 Increases in fair value	481			
2.2 Reclassification of negative reserves to income statement:				
—due to impairments				
—following disposal				
2.3 Other changes				
3. Negative changes				
3.1 Decreases in fair value				
3.2 Impairment losses				
3.3 Reclassification of positive reserves to income statement following disposal				
3.4 Other changes	(238)			
4. Closing balance				
Items/Amounts	**481**			

(In thousands of Euro)	At December 31, 2014			
Items/Amounts	Debt securities	Equity securities	Units in investment funds	Loans
1. Opening balance	**396**	—	—	—
2. Positive changes	**238**			
2.1 Increases in fair value	238			
2.2 Reclassification of negative reserves to income statement:				
—due to impairments				
—following disposal				
2.3 Other changes				
3. Negative changes	**396**			
3.1 Decreases in fair value				
3.2 Impairment losses				
3.3 Reclassification of positive reserves to income statement following disposal	396			
3.4 Other changes				
4. Closing balance	396	—	—	—

PART F—INFORMATION ABOUT CONSOLIDATED SHAREHOLDERS' EQUITY (Continued)

(In thousands of Euro)	At December 31, 2013			
Items/Amounts	**Debt securities**	**Equity securities**	**Units in investment funds**	**Loans**
1. Opening balance				
2. Positive changes	**396**			
2.1 Increases in fair value	396			
2.2 Reclassification of negative reserves to income statement:				
—due to impairments				
—following disposal				
2.3 Other changes				
3. Negative changes				
3.1 Decreases in fair value				
3.2 Impairment losses				
3.3 Reclassification of positive reserves to income statement following disposal				
3.4 Other changes				
4. Closing balance	**396**	**—**	**—**	**—**

B.4 Valuation reserves for defined-benefit plans: year-over-year changes

IAS 19 no longer allows the deferral of actuarial gains and losses under the corridor method, requiring instead their immediate recognition in comprehensive income for the year to which they are attributable. The results of the actuarial valuation reflect the impact of the provisions of Law No. 296/2006 and the computation, for IAS 19 purposes, refers solely to vested employee severance indemnity that were not transferred to supplemental pension funds or to the INPS Treasury Fund. This revision of the standard caused a negative change in the valuation reserves of about €1 thousand.

Section 2—Own Funds and banking regulatory ratios

2.1 Scope of implementation of the regulation

Starting on January 1, 2014, the new regulations harmonized for banks and investment companies, contained in the E.U. Capital Requirements Regulation (CRR) and in the E.U. Capital Requirement Directive (CRD IV) of June 26, 2013, became applicable based on Bank of Italy Circular No. 285 "Oversight provisions for banks" and Circular No. 286 "Instructions for the preparation of supervisory reporting by banks and securities intermediaries," both dated December 17, 2013. These regulations incorporate the standards set forth by the Basel Committee for banking regulations (known as the Basel 3 Framework), the implementation of which, pursuant to the Consolidated Law on Banking, is the responsibility of Bank of Italy, and define the ways with which the discretionary authority attributed by E.U. laws to national authorities may be exercised.

Insofar as the Group is concerned, the most important change is the reclassification of the first-time-adoption (FTA) valuation reserves, included in Common Equity Tier 1 capital.

Regulatory Capital (i.e., Own Funds in accordance with current regulations) at December 31, 2013 was reclassified according to the new reporting.

PART F—INFORMATION ABOUT CONSOLIDATED SHAREHOLDERS' EQUITY (Continued)

2.2 Own Funds

A. Qualitative information

Own Funds represent the first line of defense against risks associated with the complexity of financial activities and constitute the main parameter of reference for the assessment of capital adequacy.

The purpose of prudential supervision regulations is to ensure that all credit intermediaries have a minimum obligatory capitalization in relation to the risks assumed. The Group constantly assesses its capital structure, developing and deploying techniques for monitoring and managing regulated risks, also through a Risk Committee, in its capacity as the responsible multi-member internal entity. From the standpoint of prudential supervision, the amount of capital required is determined based on the current reporting regulations.

Own Funds are the sum of Common Equity Tier 1 Capital (CET1), Additional Tier 1 Capital (AT1) and Tier 2 Capital (T2) net of items to be deducted and IAS/IFRS prudential filters.

The main components of the Group's Own Funds are computed in Common Equity Tier 1 (CET1), and are the following:

- paid-in share capital;
- reserves (legal reserve, extraordinary reserve, retained earnings);
- undistributed portion of the profit for the year;
- valuation reserves: actuarial gains (losses) relating to defined benefit plans;
- valuation reserves relating to hedging derivatives;
- valuation reserves: special revaluation laws.

Other intangible assets are deducted from the above items.

Please note that, on on January 24, 2014, BFF's Board of Directors decided to exercise the option permitted by the Bank of Italy Circular No. 285 of December 17, 2013—Section II, Paragraph 2, last sentence, wherein it is stated that banks have the option of "not including in any component of Own Funds unrealized gains or losses relating to exposures with the central administrations classified in the 'Available-for-sale' category of IAS 39, as approved by the E.U." (option allowed also under Supervisory Bulleting No. 12 of December 2013, in the paragraph relating to "Own Funds Regulations"). Therefore, beginning on January 1, 2014 and until the end of the transitional period, the companies belonging to the Group will not include in their Own Funds unrealized gains or losses relating to the abovementioned exposures. The Group's Own Funds do not include capital items qualifying as Additional Tier 1 Capital (AT1) and Tier 2 Capital (T2).

PART F—INFORMATION ABOUT CONSOLIDATED SHAREHOLDERS' EQUITY (Continued)

B. Quantitative information

(In thousands of Euro)	At December 31		
	2015	2014	2013
Items/Amounts			
A. Common Equity Tier 1—CET1 before the application of prudential filters	**262,012**	**262,106**	**186,402**
CET1 instruments subject to transitory provisions			
B. CET1 prudential filters (+/−)			
C. CET1 gross of items to be deducted and of the transitory regime effects (A +/− B)	262,012	262,106	186,402
D. Elements to be deducted from CET1	**(2,747)**	**(2,053)**	**(1,123)**
E. Transitory regime—Impact on CET1 (+/−), including minority interests subject to transition requirements			
F. Total Common Equity Tier1—CET1 capital (C − D +/− E)	**259,265**	**260,053**	**185,279**
G. Additional Tier1—AT1 capital gross of items to be deducted and of the transitory regime effects			
AT1 instruments subject to transitory provisions			
H. Elements to be deducted from AT1			
I. Transitory regime—Impact on AT1 (+/−), including instruments issued by subsidiaries and included in AT1 due to transitional provisions			
L. Total Additional Tier1—AT1 capital (G − H +/− I)			
M. Tier2—T2 capital gross of items to be deducted and of the transitory regime effects			
T2 instruments subject to transitory provisions			
N. Elements to be deducted from T2			
O. Transitory regime—Impact on T2 (+/−), including instruments issued by subsidiaries and included in T2 due to transitional provisions			
P. Total Tier 2—T2 capital (M − N +/− O)			
Q. Total Equity (F + L + P)	**259,265**	**260,053**	**185,279**

The increase in Own Funds over the three-year period is mainly due to the undistributed profit for the year.

2.3 Capital adequacy

A. Qualitative information

Compliance with capital adequacy limits, both for the CET 1 Capital Ratio, Tier 1 Capital Ratio and the Total Capital Ratio is constantly monitored by the relevant corporate bodies.

The CET 1 Capital Ratio is the ratio of Common Equity Tier 1 Capital to the amount of Risk-Weighted Assets.

The Tier 1 Capital Ratio is the ratio of Tier 1 Capital to the amount of Risk-Weighted Asset. The Total Capital Ratio is the ratio of Own Funds to the amount of Risk-Weighted Asset.

In accordance with the provisions of Bank of Italy Circular No. 262 of December 22, 2005—"Bank financial statements: presentation format and preparation rules," and subsequent updates, the amount of

PART F—INFORMATION ABOUT CONSOLIDATED SHAREHOLDERS' EQUITY (Continued)

risk-weighted assets was determined for 2013 as the product of the total of prudential capital requirements and 12.5 (the inverse of the minimum obligatory ratio equal to 8%).

The decrease in risk-weighted assets in 2013 compared with the previous year is mainly due to BFF's decision, to change its reference ECAI, selecting Dominion Bond Rating Service (DBRS) instead of Moody's Investor Service, starting with the regulatory reporting June 2013. The unsolicited rating assigned to the Italian Republic by DBRS is "A low" and, consequently, the Class 2 credit rating applies to exposures for receivables from the Public Administration, with a risk weight equal to 50%.

This percentage was deemed more representative—compared with the weighting of 100% for the Class 3 credit rating assigned by Moody's Investor Service—of the risks actually attributable to counterparties in the public administration. The non-recourse receivables purchased by Farmafactoring España S.A. are weighted at 20% because the counterparties for these exposures are regional administrations and not public administration entities.

BFF's total exposure to risks at December 31, 2015, 2014 and 2013, in relation to its business, is adequate according to the level of capitalization and the risk profile identified.

At December 31, 2015, 2014 and 2013, the Tier 1 Capital Ratio was 24.3%, al 27.5% and 21.5%, respectively, and the Total Capital Ratio was 24.3%, 27.55% and 21.5% respectively.

<u>Pillar I—Capital adequacy to meet the typical risks associated with financial activities</u>

From the standpoint of operations, the absorption of risks is calculated using various methods:

- credit risk → standardized approach;
- counterparty risk → standardized approach;
- operational risk → basic indicator approach;
- market risk → standardized approach.

Credit risk

The adoption of the "Standardized" approach involves dividing the exposures into various classes ("portfolios") based on the type of counterparty, and applying diversified weighting coefficients to each portfolio. For the "Central administrations and central banks" portfolio, the weighting depends on the rating assigned by the ECAIs and the ECAs to the individual countries. For the "Supervised intermediaries" portfolio, the weighting depends on the rating of the country where the supervised intermediary is based. For the "public sector entities" portfolio, the rules for weighting are the same as those for supervised intermediaries.

With regard to the reporting of Own Funds and capital requirements, the credit assessment agency (ECAI) for exposures to central administrations and central banks recognized by BFF is DBRS, with the "Unsolicited" type of rating.

When calculating credit risk, BFF applies the following weighting factors defined in the Bank of Italy's regulation on "Prudential Supervision":

- 0% for receivables from central administrations and central banks;
- 20% for receivables from territorial entities located in a member country of the European Union denominated and financed in the local currency by virtue of the provisions set forth in the eighth update to Bank of Italy Circular No. 263 "New prudential supervision regulations for banks";
- 50% for receivables from the Public Administration (which include those from entities part of the National Healthcare System and Local Healthcare Entities) except for exposures with an original duration of three months or less, for which a weighting of 20% is applied;

PART F—INFORMATION ABOUT CONSOLIDATED SHAREHOLDERS' EQUITY (Continued)

- 50% for receivables from supervised intermediaries except for exposures with an original duration of three months or less, for which a weighting of 20% is applied;
- 100% for receivables from the Public Administration of countries in Credit Quality Class 3;
- 100% for receivables from private debtors;
- 100% for property, plant and equipment, equity investments and other assets;
- 150% for past due loans.

The non-recourse receivables purchased by Farmafactoring España S.A. are weighted at 20% because the counterparties for these exposures are regional administrations and not public administration entities.

Receivables from the Portuguese healthcare service are weighted at 100% since the country rating is Credit Quality Class 3.

The Group constantly maintains, as a capital requirement covering credit risk, an amount of own funds equal to at least 8% of the weighted exposures for credit risk in 2015, 2014 and 2013:

$$\textit{Capital requirement} = 8\%\ \textit{RWA}$$

The Risk Weighted Amount (RWA) is determined as the sum of the risk weighted assets of the various classes.

Counterparty risk

Counterparty risk represents a particular type of credit risk, which generates a loss if the transactions executed with a given counterparty have a positive value in the event of insolvency.

For BFF, the counterparty risk is entailed only by derivatives executed to hedge the risk of fluctuations in interest rates: the application of the "Standardized" approach shows an insignificant amount.

Operational risk

The Group uses the "Basic" indicator approach to measure operational risk: the capital requirement is determined by applying a 15% coefficient to the three-year average of the intermediation margin drawn from the financial statements for the last three years, in accordance with European Regulation No. 575/2013.

Market risk

The Group measures market risk by the "Standardized" method, as recommended in Bank of Italy Circular No. 263. The regulation identifies and regulates the treatment of the various types of market risk in reference to the regulatory trading portfolio. At December 31, 2015, there were no outstanding positions in the regulatory trading portfolio. At December 31, 2014 and 2013, the only positions included in the regulatory trading portfolio consisted of interest rate derivatives that, while used exclusively to hedge the interest rate risk relating to activities for the purchase of non-recourse receivables, do not meet the accounting definition of "hedging instrument".

<u>Pillar II—The ICAAP Summary</u>

This Pillar requires intermediaries to adopt control strategies and processes for determining the adequacy of current and future capital. It is the Regulatory Authority's responsibility to verify the reliability and accuracy of the results generated and, where necessary, take appropriate corrective action.

By April 30, the Group must submits an "ICAAP summary" to the Bank of Italy, showing the updated risk management system for the determination of the adequacy of capital.

PART F—INFORMATION ABOUT CONSOLIDATED SHAREHOLDERS' EQUITY (Continued)

B. Quantitative information

	Unweighted assets			Weighted assets/requirements		
	At December 31			At December 31		
(In thousands of Euro)	2015	2014	2013	2015	2014	2013
Categories/Amounts						
A. RISK ASSETS	**3,336,877**	**3,005,843**	**1,627,369**	**760,111**	**660,385**	**662,299**
A.1 CREDIT AND COUNTERPARTY RISK	**3,336,877**	**3,005,843**	**1,627,369**	**760,111**	**660,385**	**662,299**
1. Standardized approach	3,336,877	**3,005,843**	**1,627,369**	760,111	**660,385**	**662,299**
2. Internal rating based approach						
2.1 Basic						
2.2 Advanced						
3. Loan securitization						
B. REGULATORY CAPITAL REQUIREMENTS						
B.1 CREDIT AND COUNTERPARTY RISK				**60,809**	**52,831**	**52,984**
B.2 Credit valuation adjustment risk						
B.3 Settlement risk						
B.4 Market risk				**—**	**94**	**893**
1. Standard methodology				**—**	**94**	**893**
2. Internal models						
3. Concentration risk						
B.5 Operational risk				**24,457**	**22,846**	**15,056**
1. Basic method				24,457	**22,846**	**15,056**
2. Standardized method						
3. Advanced method						
B.6 Other calculation methods						
B.6 Total capital requirements				**86,368**	**75,771**	**68,933**
C. RISK ASSETS AND MONITORING RATIOS						
C.1 Risk-weighted assets				**1,065,819**	**947,139**	**861,662**
C.2 Primary capital/Risk-weighted assets (CET 1 capital ratio) (%)				**24,3%**	**27,5%**	**21,5%**
C.23 Class 1 capital/Risk-weighted assets (Tier 1 capital ratio) (%)				**24,3%**	**27,5%**	**21,5%**
C.3 Total Equity capital/ risk-weighted assets (Total capital ratio) (%)				**24,3%**	**27,5%**	**21,5%**

The unsolicited rating assigned to the Italian Republic by DBRS is "A low" and, consequently, the Class 2 credit rating applies to exposures for receivables from the Public Administration, with a risk weight equal to 50%.

In line with the requirements of E.U. Regulation No. 575/2013 (CRR), starting with the reports at December 31, 2015, in the scope of consolidation used exclusively for prudential supervision purposes BFF Lux Holdings S.à r.l. will be the parent company.

Please note that for the purpose of preparing the financial statements and filing "non-harmonized" reports, the reference will continue to be that of the Banking Group pursuant to the Consolidated Law on Banking.

PART G—BUSINESS COMBINATIONS INVOLVING COMPANIES OR BUSINESS ACTIVITIES

Section 1—Transactions closed during the year

1.1 Business combinations

Merger

The merger by incorporation of FF Holding S.p.A. ("**FFH**") into BFF, in the manner of a reverse merger (the "**Merger**"), was finalized by a deed of merger dated October 8, 2014, recorded in the Company Register on October 13, 2014. The Merger was in accordance with the authorization received from Bank of Italy on July 18, 2014, and in execution of the resolutions adopted by the Shareholders' Meeting on September 9, 2014.

On the merger date, the only asset held by the incorporated company was its equity investment in BFF and the transaction did not qualify as a business combination in accordance with IFRS 3; consequently, BFF treated the Merger, which did not meet the requirements of IFRS 3 due also to the fact that it represented an aggregation of entities under common control, as a purchase of treasury shares, accounted for in accordance with IAS 32. Moreover, the Group's consolidated statement of financial position, income statement and statement of cash flows for the year ended December 31, 2014 shows a continuity of values compared with the Group's consolidated financial statements for the year ended December 31, 2013.

The Merger had no other impact on BFF's shareholders' equity because the value of the investment held by the incorporated company was cancelled as a result of the merger, and was substantially the same as FFH's shareholders' equity.

PART H—RELATED PARTY TRANSACTIONS

1. Information about the compensation of BFF executives with strategic responsibilities

- Compensation of Directors: €1,549 thousand at December 31, 2015, €1,475 thousand at December 31, 2014 (including €23 thousand for the Directors of FF Holding S.p.A.) and €1,821 thousand at December 31, 2013;
- Compensation of the Board of Statutory Auditors: €177 thousand at December 31, 2015, €321 thousand at December 31, 2014 (including €127 thousand for the Board of Statutory Auditors of FF Holding S.p.A.) and €192 thousand at December 31, 2013.

On November 4, 2015, after approval by the Bank of Italy, 1,602,341 shares, representing 94.26% of the share capital of BFF, were transferred to BFF Luxembourg S.à r.l., a company controlled by the Centerbridge Partners Europe L.P. Fund, by the majority shareholder Farma Holding S.à r.l. and some minority shareholders.

BFF's executives and managers sold their investments in BFF and Farma Holding S.à r.l. and some managers, already or not yet shareholders, invested part of the proceeds and additional resources in BFF Lux Holdings S.à r.l., the majority shareholder of BFF Luxembourg S.à r.l.

The following table sets forth the number of shares held by BFF's Directors and executives; these shares were purchased at their fair value.

	At December 31					
	2015		2014		2013	
(In number of shares)	number of shares	Company	number of shares	Company	number of shares	Company
Directors and Executives	16,279,126	BFF Lux Holdings S.a.r.l.	55.311	FF Holding S.p.A.	59,071	FF Holding S.p.A.
Directors	—	—	780	Farma Holding S.a.r.l.	780	Farma Holding S.a.r.l.

PART H—RELATED PARTY TRANSACTIONS (Continued)

2. Information about related party transactions

The Group transactions with related parties (hereinafter collectively "**Related-Party Transactions**") were identified in accordance with the criteria set forth in IAS 24—Related Party Disclosures.

The merger by incorporation of FF Holding S.p.A. ("**FFH**") into BFF, was finalized by a deed of merger dated October 8, 2014, recorded in the Company Register on October 13, 2014. The Merger was in accordance with the authorization received from Bank of Italy on July 18, 2014, and in execution of the resolutions adopted by the Shareholders' Meeting on September 9, 2014. For additional information see Part G—"Business Combinations Involving Companies or Business Activities" earlier in these Notes to the Financial Statements.

PART H—RELATED PARTY TRANSACTIONS (Continued)

The following table sets forth the impacts of Related Party Transactions on our income statement and on our statement of financial position for the three months ended March 31, 2016 and 2015, and for the years ended December 31, 2015, 2014 and 2013.

(in thousands of Euro)	Parent company[1]	Key management personnel[2]	Total related parties	Financial statements line item	% on financial statements line item
Impacts on consolidated statement of financial position					
Loans and receivables with customers					
At December 31, 2015	—	—	**—**	**1,962,004**	**0.0%**
At December 31, 2014	—	—	**—**	**1,554,957**	**0.0%**
At December 31, 2013	1,700	—	**1,700**	**1,136,578**	**0.1%**
Other assets					
At December 31, 2015	—	—	**—**	**3,106**	**0.0%**
At December 31, 2014	—	—	**—**	**2,106**	**0.0%**
At December 31, 2013	1	—	**1**	**9,336**	**0.0%**
Due to customers					
At December 31, 2015		(401)	**(401)**	**(1,726,683)**	**0.0%**
At December 31, 2014	—	—	**—**	**(1,168,587)**	**0.0%**
At December 31, 2013	—	—	**—**	**(173,438)**	**0.0%**
Other liabilities					
At December 31, 2015	—	(398)	**(398)**	**(45,885)**	**0.9%**
At December 31, 2014	—	(471)	**(471)**	**(32,377)**	**1.5%**
At December 31, 2013	—	(569)	**(569)**	**(25,370)**	**2.2%**
Impacts on consolidated income statement					
Interest income and similar revenues					
Year ended December 31, 2015	—	—	**—**	**161,946**	**0.0%**
Year ended December 31, 2014	—	—	**—**	**252,551**	**0.0%**
Year ended December 31, 2013	3	—	**3**	**154,643**	**0.0%**
Interest expenses and similar expenses					
Year ended December 31, 2015	—	(8)	**(8)**	**(28,898)**	**0.0%**
Year ended December 31, 2014	—	—	**—**	**(44,240)**	**0.0%**
Year ended December 31, 2013	(76)	—	**(76)**	**(53,644)**	**0.1%**
Administrative costs: a) personnel costs					
Year ended December 31, 2015	—	(1,549)	**(1,549)**	**(18,476)**	**8.4%**
Year ended December 31, 2014	—	(1,475)	**(1,475)**	**(14,828)**	**9.9%**
Year ended December 31, 2013	—	(1,821)	**(1,821)**	**(13,227)**	**13.8%**
Other net operating income					
Year ended December 31, 2015	—	—	**—**	**4,144**	**0.0%**
Year ended December 31, 2014	—	—	**—**	**7,032**	**0.0%**
Year ended December 31, 2013	24	—	**24**	**6,609**	**0.4%**

(1) In 2013 the parent company was FFH, while in 2014 and in the three months ended March 31, 2015, due to the effect of the merger, the parent company was Farma Holding S.à r.l. At December 31, 2015 and at March 31, 2016, the parent company was BFF Luxembourg S.a.r.l.

(2) Includes the members of the Board of Directors and the Chief Executive Officer of the Company. The members of the Board of Directors of the subsidiary Farmafactoring España S.A. do not receive any compensation

A brief description of the main Related Party Transactions in the reporting periods is provided below.

PART H—RELATED PARTY TRANSACTIONS (Continued)

Due from customers

The amount at December 31, 2013 includes the remaining balance of €1,700 thousand of a credit facility provided by the Company to FFH in December 2013, for a total of €2.5 million, which had a contractual maturity of December 31, 2014 and accrued interest at a rate of 5.126%.

Due to customers

The amount at December 31, 2013 refers to the balances of "Conto Facto" deposit accounts established by the Group's Directors on the same terms as those offered to the general public.

Other liabilities

This item includes the Company liability towards key management personnel for compensation and other amounts, not yet paid at the end of each period.

Interest income and similar revenues

The amount for 2013 includes the interest paid by FFH to the Company for the credit facility provided by the Company to FFH in 2013, for a total of €2.5 million, as described above.

Interest expense and similar expenses

This item includes: i) for 2013, the interest paid by BFF to FHH on a credit facility of €5,000 thousand provided in 2009 that accrued interests at December 31, 2013 at a rate of 4.462%, and ii) for the year ended December 31, 2015, the interest paid on "Conto Facto" deposit accounts established by the Group's Directors on the same terms as those offered to the general public.

Administrative costs a) Personnel costs

This item includes the compensation and other amounts awarded by the Company towards key management personnel, during the reporting periods.

Other operating income/costs

The amount for 2013 includes the income from administrative services provided by BFF to FFH.

Please also note that BFF has factoring and mandate arrangements for the management and collection of receivables with its shareholder companies, conducted on standard market terms.

PART L—SEGMENT REPORTING

The Group is specialized in the management and non-recourse factoring of receivables owed to suppliers mainly by national healthcare service entities and other sectors of the Public Administration in Italy, as well as in non-recourse transactions in Portugal and, through its Farmafactoring España S.A. subsidiary, in Spain.

Its target clientele, mainly comprised of major suppliers to the Public Administration, generates through its activity receivables from the National Healthcare System or the Public Administration.

Consequently, the Group is structured primarily as a single-sector and single-product entity and its companies operate with substantially homogeneous risk assumption modalities and policies.

Consequently, the definition of distinctly identifiable parts that provide products or services within the same economic environment subject to separable risks and benefits is not relevant for Group management purposes. Therefore, segment reporting in fact coincides with the Group's entire business. The following table sets forth the volumes handled, the receivables purchased and the management accounts outstanding

PART L—SEGMENT REPORTING (Continued)

of the Group for its non-recourse factoring business, broken down by geographic region, for the years ended December 31, 2015. 2014 and 2013.

	At December 31, 2015			At December 31, 2014			At December 31, 2013		
(In thousands of euros)	Volumes	Receivables purchased	Outstanding (management accounts)	Volumes	Receivables purchased	Outstanding (management accounts)	Volumes	Receivables purchased	Outstanding (management accounts)
Italy	**5,802,459**	**2,481,156**	**1,797,015**	**5,085,095**	**2,161,323**	**1,271,491**	**4,473,301**	**1,716,418**	**1,167,679**
National Healthcare System	4,563,314	1,512,774	951,243	4,423,865	1,804,930	1,012,464	4,305,329	1,664,959	1,125,798
Public Debtors	1,125,183	939,586	824,665	580,652	344,872	250,331	97,561	46,627	38,556
Other	113,962	28,796	21,107	80,578	11,521	8,696	70,411	4,832	3,325
Spain	**467,170**	**449,590**	**183,434**	**336,261**	**310,938**	**250,698**	**62,478**	**57,273**	**47,488**
National Healthcare System	412,596	395,016	142,210	308,350	283,027	227,699	62,478	57,273	47,488
Public Debtors	54,574	54,574	41,224	27,911	27,911	22,999	—	—	—
Portugal	**55,028**	**55,028**	**28,392**	**29,365**	**29,365**	**27,228**	**—**	**—**	**—**
National Healthcare System	55,028	55,028	28,392	29,365	29,365	27,228	—	—	—
Total	**6,324,657**	**2,985,774**	**2,008,841**	**5,450,721**	**2,501,626**	**1,549,417**	**4,535,779**	**1,773,691**	**1,215,167**

UNAUDITED PRO-FORMA CONSOLIDATED FINANCIAL INFORMATION

The unaudited pro forma consolidated financial information and the report thereto appearing below have been issued in accordance with procedures specified in Recommendation DEM/1061609 of August 9, 2001 for the review of pro forma data. The rules and regulations related to the preparation of pro forma financial information in other jurisdictions may also vary significantly from the requirements applicable in Italy. The examination of the pro forma financial information by PricewaterhouseCoopers SpA has not been carried out in accordance with the auditing standards generally accepted in the U.S. and accordingly should not be relied upon by U.S. Investors as if it had been carried out in accordance with those standards or any other standards besides the Italian standards mentioned above.

AUDITORS' REPORT ON THE UNAUDITED PRO-FORMA CONSOLIDATED INCOME STATEMENT AND THE UNAUDITED PRO-FORMA CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016 AND RELATED EXPLANATORY NOTES OF BANCA FARMAFACTORING SPA

To the Board of Directors of
Banca Farmafactoring SpA

1. We have examined the accompanying unaudited pro-forma consolidated income statement and the unaudited pro-forma consolidated statement of cash flows for the year ended December 31, 2016 and the related explanatory notes of Banca Farmafactoring SpA (hereinafter the "Unaudited Pro-Forma Consolidated Financial Information").

   The Unaudited Pro-Forma Consolidated Financial Information has been derived from:

   - the consolidated financial statements of Banca Farmafactoring SpA (hereinafter the "**Company**" and, together with its subsidiaries, the "**Group**") as of and for the year ended December 31, 2016 (hereinafter the "**2016 Financial Statements**"),
   - Magellan S.A.'s consolidated financial schedules for the year ended December 31, 2016 (hereinafter the "**Magellan Financial Schedules**"), prepared for the purpose of the Unaudited Pro-forma Consolidated Financial Information,
   - the pro-forma adjustments applied thereto, which we have examined.

   The 2016 Financial Statements were audited by us and our audit report thereon was issued on February 20, 2017. We have performed the audit procedures on the Magellan Financial Schedules that we considered necessary to issue this report.

   The Unaudited Pro-Forma Consolidated Financial Information was prepared on the basis of the assumptions illustrated in the explanatory notes, to reflect retrospectively the effects of the acquisition of the entire share capital of Magellan S.A. (hereinafter the "**Transaction**").

PricewaterhouseCoopers SpA

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2. The Unaudited Pro-Forma Consolidated Financial Information has been prepared solely for the inclusion: i) in the prospectus relating to the public offering in Italy and admission to listing of the Company's ordinary shares on the stock exchange organized and managed by Borsa Italiana SpA and ii) in any other offering documents for the sale of the Company's shares to international investors.

   The Unaudited Pro-Forma Consolidated Financial Information was prepared to simulate, using accounting policies consistent with those applied in the historical financial information and compliant with the applicable regulations, the effects of the Transaction on the Group's results of operations and cash flows as if the Transaction had taken place on January 1, 2016. However, it should be noted that had the Transaction actually taken place on the date assumed, the effects would not necessarily have been the same as those presented in the Unaudited Pro-Forma Consolidated Financial Information.

   The directors of the Company are responsible for the preparation of the Unaudited Pro-Forma Consolidated Financial Information. Our responsibility is to express a professional opinion on the reasonableness of the assumptions used by the directors in the preparation of the Unaudited Pro-Forma Consolidated Financial Information and on whether the method used to compile the Unaudited Pro-Forma Consolidated Financial Information has been applied properly. Moreover, our responsibility is to express a professional opinion on the correctness of the accounting policies and principles applied.

3. We conducted our examination in accordance with the criteria recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange, in its Recommendation No. 1061609 of August 9, 2001, for the examination of pro-forma information and carrying out such procedures as we considered necessary for the purpose of our engagement.

4. In our opinion, the underlying assumptions used by the Company in the preparation of the Unaudited Pro-Forma Consolidated Financial Information are reasonable and the method used to compile the Unaudited Pro-Forma Consolidated Financial Information has been applied properly for the information purposes described above. Moreover, we believe that the accounting policies and principles applied in the preparation of the Unaudited Pro-Forma Consolidated Financial Information are correct.

Milan, February 22, 2017

PricewaterhouseCoopers SpA

/s/Matteo Colombo

Matteo Colombo
(Partner)

This report has been translated into the English language from the original, which was issued in Italian, solely for the convenience of international readers.

UNAUDITED PRO-FORMA FINANCIAL INFORMATION

Unaudited pro-forma consolidated income statement and unaudited pro-forma consolidated statement of cash flows for the year ended December 31, 2016 and the accompanying notes of Banca Farmafactoring S.p.A.

1. Foreword

This document includes the unaudited pro-forma consolidated income statement and the unaudited pro-forma consolidated statement of cash flows for the year ended December 31, 2016 of Banca Farmafactoring S.p.A. (hereinafter the "**Issuer**" or the "**Company**" or "**BFF**" and collectively with its subsidiaries the "**Group**"), together with the accompanying notes (hereinafter the "**Unaudited Pro-forma Consolidated Financial Information**").

The Unaudited Pro-forma Consolidated Financial Information has been prepared for the purposes of inclusion: i) in the offering document to be prepared in compliant with the provisions of Consob Resolution No. 11971 of May 14, 1999, as amended, and Article 4 of EC Regulation No. 809/2004 of the European Commission of April 29, 2004, setting forth the implementation modalities of Directive No. 2003/71/EC and the annexed presentation forms, concerning the planned admission to listing of the Issuer's ordinary shares on the Mercato Telematico Azionario, managed by Borsa Italiana S.p.A. and the related initial public offering; and ii) in any other document that may be prepared by the Company for the purposes of the offering described in point i) above.

More in details, the Unaudited Pro-forma Consolidated Financial Information has been prepared to present the main estimated effects on Group's economic results and cash flows derived from the acquisition, through a tender offer, of Magellan S.A. ("**Magellan**"), successfully concluded in June 2016 (the "**Transaction**"). The Transaction is represented more detailed in the following Section 2.

The Unaudited Pro-forma Consolidated Financial Information was prepared for illustrative purposes only, in accordance with valuation criteria consistent with historical data and in compliance with the relevant regulations, in relation to the possible main effects of the Transaction on the Group's income statement and statement of cash flows as if the Transaction had virtually occurred on January 1, 2016. It should be noted that the Unaudited Pro-forma Consolidated Financial Information does not include a pro-forma balance sheet since the Transaction is already reflected in the Group's actual consolidated balance sheet as of December 31, 2016.

In particular, given that the Unaudited Pro-forma Consolidated Financial Information has been based on available information and prepared to retrospectively reflect the effects of subsequent transactions and, despite complying with generally accepted regulations and using reasonable assumptions, there are limits associated with the very nature of the pro-forma information. Given their nature, the Unaudited Pro-forma Consolidated Financial Information addresses a hypothetical situation and, therefore, do not represent the company's actual financial position or results nor are they are necessarily indicative of future consolidated results of operations or financial condition. Had the Transaction actually occurred on the date assumed above, the effects would not necessarily have been the same as those presented in the Unaudited Pro-forma Consolidated Financial Information.

The Unaudited Pro-forma Consolidated Financial Information does not in any way intend to be a forecast of our future results and therefore should not be construed in this sense.

The Unaudited Pro-forma Consolidated Financial Information should be read in conjunction with:

- the consolidated financial statements of the Group for the year ended December 31, 2016, prepared in accordance with the IAS/IFRSs international accounting standards, approved by the Issuer's Board of Directors on February 13, 2017 (hereinafter the "**2016 Financial Statements**") and audited by the Independent Auditors PricewaterhouseCoopers S.p.A. (hereinafter "**PwC**,"),;
- Magellan's consolidated financial schedules for the year ended December 31, 2016 (hereinafter the "**Magellan Financial Schedules**"), prepared in accordance with the IAS/IFRSs international accounting standards for the purpose of the Unaudited Pro-forma Consolidated Financial Information, approved by Magellan's Supervisory Board on February 3, 2017, on which PwC performed the audit procedures with the extension considered necessary to issue the Unaudited Pro-forma Consolidated Financial Information report.

2. The Transaction

2.1. Description of the Transaction

On December 21, 2015, the Issuer's Board of Directors approved a resolution authorizing the transaction consisting of the acquisition, through Mediona, an SPV under Polish law with registered office in Warsaw, of a percentage of up to 100% of the share capital of Magellan, a company under Polish law listed on the Warsaw Stock Exchange since 2007 that is a leading operator in the market for financial services in the healthcare sector in Poland, the Czech Republic and Slovakia, as well as, indirectly, of Magellan's subsidiaries and secondary offices in Poland, the Czech Republic, Slovakia and Spain (the "**Magellan Tender Offer**").

On January 8, 2016, Mediona informed the market and the Polish market regulatory authority (KNF) of the launch of a tender offer for a maximum number of shares equal to up to 100% of Magellan's share capital (i.e., 6,720,037 shares), aimed at delisting the shares.

On May 27, 2016, all conditions for the Magellan Tender Offer realized, the underwriting period was concluded; Mediona acquired a total of 6,526,941 shares of Magellan, corresponding to 97.127% of its share capital. On June 1, 2016, Mediona acquired the shares of Magellan on the Warsaw Stock Exchange and on June 3, 2016, Mediona payed PLN 443,831,988 as consideration for the shares acquired.

Mediona subsequently exercised the right to acquire the remaining minority shareholding in Magellan (squeeze-out right) for an additional consideration of PLN 8,542,500; this procedure ended on June 30, 2016.

In the course of the transaction, the Issuer also purchased an amount of own shares held by Magellan equal to PLN 23 million.

3. Unaudited Pro-forma Consolidated Financial Information

This section includes the unaudited pro-forma consolidated income statement and the unaudited pro-forma consolidated statement of cash flows for the year ended December 31, 2016, and the accompanying notes.

Unaudited Pro-forma Consolidated Income Statement

(In thousands of Euro)	Group Consolidated Income Statement for the year ended December 31, 2016	Reclassified Magellan Income Statement for the year ended December 31, 2016	Pro-forma adjustments: Reclassified Magellan Income Statement for the period of 7 months ended December 31, 2016	Pro-forma adjustments: Financial expenses	Pro-forma Group Consolidated Income Statement
	(Note 1)	(Note 2)	(Note 3)	(Note 4)	
10. Interest income and similar revenues	190,225	35,184	(21,387)		204,022
20. Interest expenses and similar expenses	(31,020)	(15,016)	8,894	(1,394)	(38,535)
30. Net interest margin	**159,205**	**20,168**	**(12,493)**	**(1,394)**	**165,486**
40. Fee and commission income	7,833	—	—		7,833
50. Fee and commission expense	(4,478)	(1,283)	1,283		(4,478)
60. Net fees and commissions	**3,355**	**(1,283)**	**1,283**	—	**3,355**
70. Dividend income and similar revenues	60	123	(60)	—	123
80. Gains and losses on financial assets and liabilities held for trading	682	176	(192)		666
90. Fair value adjustment in hedge accounting	(1)	—	—		(1)
100. Gains (losses) on disposal and repurchase of:	—	—	—		—
b) available-for-sale financial assets	706	—	—		706
110. Gains and losses on financial assets/liabilities at fair value through profit or loss	—	—	—		—
120. Operating income	**164,007**	**19,184**	**(11,462)**	**(1,394)**	**170,335**
130. Net losses/recoveries on impairment:					
a) receivables	(2,180)	(1,636)	1,203		(2,613)
b) available-for-sale financial assets	(64)	—	—		(64)
c) held-to-maturity financial assets			—		—
d) other financial assets			—		—
140. Net profit from financial activities	**161,763**	**17,548**	**(10,259)**	**(1,394)**	**167,658**
170. Net profit from financial and insurance activities	**161,763**	**17,548**	**(10,259)**	**(1,394)**	**167,658**
180. Administrative costs:					
a) personnel costs	(24,924)	(4,596)	3,185		(26,335)
b) other administrative expenses	(38,718)	(4,744)	3,509		(39,953)
190. Net provisions for risks and charges	(2,075)	—	—		(2,075)
200. Impairment/write-backs on property, plant and equipment	(1,282)	(259)	157		(1,384)
210. Impairment/write-backs on intangible assets	(1,334)	(27)	16		(1,345)
220. Other net operating income	5,704	669	(261)		6,112
230. Operating costs	**(62,629)**	**(8,958)**	**6,606**	—	**(64,981)**
280. Total profit or loss before tax from continuing operations	**99,134**	**8,590**	**(3,653)**	**(1,394)**	**102,677**
290. Tax expense (income) related to profit or loss from continuing operations	(26,997)	(1,752)	787	442	(27,520)
300. Total profit or loss after tax from continuing operations	**72,137**	**6,838**	**(2,866)**	**(952)**	**75,157**
320. Net profit or loss of the year	**72,137**	**6,838**	**(2,866)**	**(952)**	**75,157**
340. Net profit or loss of the year attributable to the parent company	**72,137**	**6,838**	**(2,866)**	**(952)**	**75,157**
Earnings per share (Euro)	42.41				44.18
Diluted earnings per share (Euro)	42.41				44.18

Unaudited Pro-forma Consolidated Statement of cash flows

(In thousands of Euro)	Group Consolidated Statement of cash flows for the year ended December 31, 2016	Reclassified Statement of Magellan Cash Flows for the year ended December 31, 2016	Pro-forma adjustments: Reclassified Magellan Statement of cash flows for the period of 7 months ended December 31, 2016	Pro-forma adjustments: Financial expenses	Pro-forma Group Consolidated Statement of cash flows for the year ended December 31, 2016
	(Note 5)	(Note 6)	(Note 7)	(Note 8)	
A. OPERATING ACTIVITIES					
Operations	*78.391*	*7.755*	*(4.161)*	*(952)*	*81.033*
Profit or loss for the year (+/−)	72.137	6.838	(2.866)	(952)	75.157
Capital gains/losses on financial assets/liabilities held for trading and on assets/liabilities designated at fair value through profit and loss (+/−)	—	(280)	—		(280)
Capital gains/losses on hedging operations (+/−)	(682)	—	—		(682)
Net losses/recoveries on impairment (+/−)	1	—	—		1
Net write-offs/write-backs on tangible and intangible assets (+/−)	2.244	1.636	(1.203)		2.677
Provisions and other incomes/expenses (+/−)	2.616	286	(173)		2.729
Not cashed net premiums (−)	2.075	(725)	81		1.431
Other not collected incomes and expenses from insurance activities	—	—	—		—
Unpaid taxes and tax credits (+/−)	—	—	—		—
Impairment/write-backs on discontinued operations net of tax effects (+/−)	—	—	—		—
Financial expenses paid (−)	—	—	—		—
Other adjustments (+/−)	—	—	—		—
Liquidity generated/absorbed by financial assets	*1.391.960*	*65.705*	*(55.374)*	*—*	*1.402.291*
Financial assets held for trading	244	106	(61)		290
Financial assets at fair value	3.401	—	—		3.401
Available-for-sale financial assets	(44.158)	—	—		(44.158)
Due from banks: at sight	84.349	2.955	1.681		88.985
Due from banks: other	—	—	—		—
Due from customers	539.270	62.173	(56.368)		545.076
Other assets	808.854	470	(627)		808.697
Liquidity generated/absorbed by financial liabilities	*1.407.938*	*55.639*	*(46.119)*	*952*	*1.418.410*
Due to banks: at sight	(52.452)	32.666	(71.496)	952	(90.330)
Due to banks: other	—	—	—		—
Due to customers	1.269.459	54.777	(8.262)		1.315.974
Debt certificates including bonds	181.321	(38.847)	41.689		184.162
Financial liabilities held for trading	7	(299)	183		(109)
Financial liabilities designated at fair value	—	—	—		—
Other liabilities	9.603	7.343	(8.232)		8.714
Net liquidity generated/absorbed by operating activities	**94.369**	**(2.310)**	**5.094**	**—**	**97.153**
B. Investment activities		**—**	**—**		**—**
Liquidity generated by	**60**	**81**	**—**	**—**	**141**
Sales of equity investments	—	—	—		—
Collected dividends on equity investments	60	81	—		141
Sales of financial assets held to maturity	—	—	—		—
Sales of property, plant and equipment	—	—	—		—
Sales of intangible assets	—	—	—		—
Sales of subsidiaries and divisions	—	—	—		—
Liquidity absorbed by	**(25.592)**	**(306)**	**243**	**—**	**(25.655)**
Purchases of equity investments	(302)	(218)	119		(401)
Purchases of financial assets held to maturity	—	—	—		—
Purchases of property, plant and equipment	(892)	9	95		(788)
Purchases of intangible assets	(24.398)	(97)	29		(24.466)
Purchases of sales/purchases of subsidiaries and divisions	—	—	—		—
Net liquidity generated/absorbed by investment activities	**(25.532)**	**(225)**	**243**	**—**	**(25.514)**
C. FUNDING ACTIVITIES		—	—		—
Issue/purchase of treasury shares	—	5.336	(5.336)		(0)
Issue/purchase of capital instruments	(83)	—	—		(83)
Distribution of dividends and other scopes	(68.765)	(2.821)	—		(71.586)
Net liquidity generated/absorbed by funding activities	**(68.848)**	**2.515**	**(5.336)**	**—**	**(71.669)**
NET LIQUIDITY GENERATED/ABSORBED DURING THE YEAR	**(11)**	**(20)**	**0**	**—**	**(31)**

3.1 Notes to the Unaudited Pro-forma Consolidated Financial Information

3.1.1 Basis of presentation and accounting principles used

The Unaudited Pro-forma Consolidated Financial Information was prepared in accordance with CONSOB Communication DEM/1052803 of July 5, 2001, which sets out criteria to be followed in the preparation of pro-forma information.

In particular, the Unaudited Pro-forma Consolidated Financial Information was prepared by adjusting the Group's historical financial information for the year ended December 31, 2016, derived from the 2016 Financial Statements, in order to simulate the main effects that the Transaction could have on the income statement and statement of cash flows.

The accounting principles adopted in preparing the Unaudited Pro-forma Consolidated Financial Information were the same as those used to prepare the 2016 Financial Statements, namely, the International Financial Reporting Standards, including all the "International Financial Reporting Standards", all the "International Accounting Standards" and all the interpretations of the "International Financial Reporting Interpretations Committee", previously known as the "Standing Interpretations Committee", endorsed by the European Union ("IFRS").

Unless otherwise indicated, all amounts in this document are expressed in thousands of Euros.

3.1.2 Description of the pro-forma adjustments made in preparing the Unaudited Pro-forma Consolidated Financial Information

A brief description of the pro-forma adjustments made in preparing the Unaudited Pro-forma Consolidated Financial Information is provided below.

Note 1—Group Consolidated Income Statement for the year ended December 31, 2016.

This column includes the Group consolidated income statement for the year ended December 31, 2016, derived from the 2016 Financial Statements.

Note 2—Magellan Income Statement for the year ended December 31, 2016.

This column includes Magellan income statement for the year ended December 31, 2016, derived from Magellan Financial Schedules, translated into euros using a 4.36321 Euro/Zloty average exchange rate for the year ended December 31, 2016.

Note 3—Magellan Income Statement for the period of seven months ended December 31, 2016.

This column represents the elimination of the Magellan income statement for the period of seven months ended December 31, 2016, as included in the 2016 Financial Statements.

Note 4—Financial expenses

This column includes the effects expected to have a continuing impact on the financial expenses related to the debt of €104,402 thousand composed of €103,187 thousand (equal to the consideration paid for the acquisition of Magellan) and €1,215 thousand (equal to the structuring fee equal to 150 bps calculated in Euro of the UniCredit loan disbursed).

More specifically, these effects are calculated as follows:

Loan	Amount (in € thousands)	Interest rate	Financial expenses (in € thousands)
Dedicated loan with UniCredit . .	80,999	1.618% (*)+150bps (3.118%)	2,600
		Structuring fee on the dedicated loan with UniCredit, based on the amortised cost	347
Existing committed lines	23,403	Average *funding* rate of the Group for the first quarter 2016 (1.7%)	398
Financial expenses already computed in the 2016 Financial Statements			(1,951)
Total	**104,402**		**1,394**

(*) Interest rate determined by the Interest Rate Swap (IRS) contract signed on July 1, 2016, intended to cover the variable interest rate (Wibor 3 months) of the dedicated loan. The IRS has the same amount and term of the loan.

Non-recurring charges

Please note that the consolidated income statement includes non-recurring charges related to the Transaction amounting to €5,068 thousand and waiver costs for €3,963 thousand, for a total of €9,031 thousand. This amount will not have a permanent impact on the income statement of the Group.

Note 5—Group Consolidated Statement of Cash Flows for the year ended December 31, 2016.

This column includes the Group consolidated statement of cash flows for the year ended December 31, 2016, derived from the 2016 Financial Statements.

Note 6—Magellan Statement of Cash Flows for the year ended December 31, 2016.

This column includes Magellan statement of cash flows for the year ended December 31, 2016, derived from Magellan Financial Schedules, translated into euros using a 4.36321 Euro/Zloty average exchange rate for the year ended December 31, 2016.

Note 7—Magellan Income Statement for the period of seven months ended December 31, 2016.

This column represents the elimination of the Magellan cash flows for the period of seven months ended December 31, 2016, as included in the 2016 Financial Statements.

Note 8—Financial expenses

This column includes the effects expected to have a continuing impact related to the interest expenses for the debt of €104,402 thousand composed of €103,187 thousand (equal to the consideration paid for the acquisition of Magellan) and €1,215 thousand (equal to the structuring fee equal to 150 bps calculated in Euro of the UniCredit loan disbursed).

Non-recurring flows

Please note that the consolidated statement of cash flows includes non-recurring flows, related to the Transaction, that will not have a permanent impact on the cash flows of the Group. More in details:

- cash flows related to the Group's financing activities of €103,187 thousand equal to the consideration paid for the acquisition of Magellan;
- non-recurring costs for the Transaction for a total of €3,790 net of the related tax effect;
- non-recurring waiver costs for a total of €2,795 net of the related tax effect.

Other Aspects

In compliance with the relevant regulations in preparing the Unaudited Pro-forma Consolidated Financial Information, no hypotheses were developed about potential synergies deriving from the integration of the two groups or about the costs that will be incurred for the integration of the two groups.

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