BANCA IFIS

2016 BANCA IFIS GROUP CONSOLIDATED REPORTS

VALUE TO YOUR BUSINESS

BANCA IFIS GROUP

www.bancaifis.com

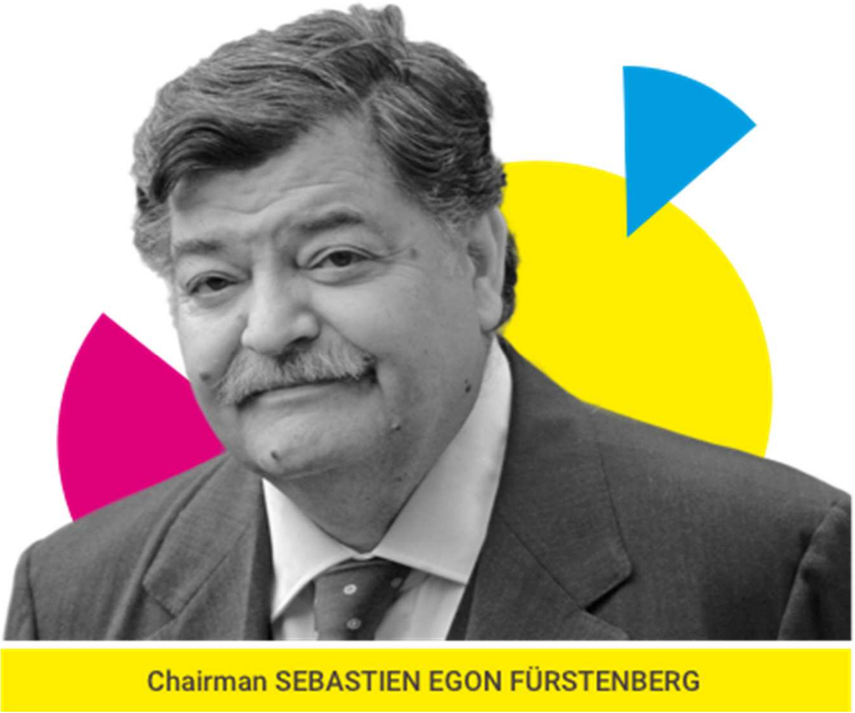
Banca IFIS S.p.A. - Registered office in Via Terraglio 63, 30174 Mestre, Venice - Registration number in the Companies Register of Venice and Tax Code 02505630109 - VAT number 02992620274 - REA (Administrative Economic Index) number: VE - 0247118 – Share capital Euro 53,811,095 – Registry of Banks no. 5508 - Parent Company of the Banca IFIS Banking Group S.p.A., enrolled in the registry of Banking Groups – Member of the Interbank Deposit Protection Fund, of the Italian Banking Association, of the Italian Factoring Association, of Factors Chain International

Contents

Introduction

Letter from the Chairman and the CEO to Shareholders

Chairman



Dear Shareholders,

In the year just ended, our Bank made another important step forward on the growth path it has been on for years now.

For most of 2016, Banca IFIS has dedicated its organisation and resources to the acquisition of the former Interbanca Group. This milestone is already producing some of the results expected by management, such as bolstering the Bank's capital—which will allow us to grow further. With this acquisition, the new Banca IFIS Group has strengthened its market positioning, become more robust, and brought new people on board: we now number more than 1,300. And the frenzy of activity and growth that we experience every day at the Banca IFIS Group is occurring within a challenging external context. The banking industry is not yet out of the woods, and this severely affects Italy's real economy— which is hungry for a comeback and new investments. Like us, it is eager to work hard in order to accomplish virtuous growth and development goals. Against this backdrop, Banca IFIS has the resources and liquidity to support businesses and households, pursuing a coherent course of action.

2016 saw not only dramatic changes, but also some important confirmation. Our way of banking is fit to compete in a diverse competitive landscape, which features not only banks but also global web giants entering the credit industry or nimble start-ups. Our penchant for moving fast allows us to work side-by-side (and sometimes compete) with global companies in innovating and adopting new technologies, leading the Bank to new frontiers in its relations with customers. A clear example of our ability to re-imagine the value chain of our traditional businesses is the NPL Area, which has achieved results considered impossible only a few years ago while providing sustainable solutions to as much of the economy as possible.

The CEO will now discuss the strategies that produced these results as well as how the Bank has made its operations more robust and sustainable over time.

CEO

Profitability, liquidity, and capital discipline: these are the three pillars of our operations— and the growth drivers we wanted for the new Banca IFIS Group, which, as the Chairman said, has made us more numerous, complete, and responsible towards Italy's economy.

Chief Executive Officer GIOVANNI BOSSI

More **numerous** because we have grown stronger thanks to an acquisition that is key for us, bringing a new sales force and an increasingly active mobile presence throughout the country. Implementing digital solutions in distributing and creating products that the markets consider useful allows us to be increasingly present, active, and effective.

More **complete**, because we can now offer other products and services for SMEs alongside short-term financing. We will be able to serve businesses better, complementing our services to support working capital—Banca IFIS's traditional core business—with the former Interbanca Group's ability to grow in the leasing and medium-term financing sectors. Together, we will have more customers, offer more products, increase our operational capacity, and have more ways to accomplish our goals.

More **responsible**, because the true strength of Banca IFIS lies in bringing together the competencies of the two Groups. Thanks also to this integration, Italy will have a player determined to support healthy businesses that want to grow, aware of the importance of innovation in a world in dire need of change.

After years of relentless growth, we are aware of our responsibility to shareholders, the Bank, and Italy's real economy. **We know that being a Bank means being a business—but above all, it means bearing a responsibility**. We know that only a Bank capable of achieving its results as well as bring a noticeable improvement to the economy it operates in has the dignity to sustainably conduct its business over time.

This is the spirit and the vision that drove us to work hard throughout 2016 in a challenging environment of extremely low interest rates and muted economic growth. Concerning our support to businesses, we have made considerable progress by increasing the number of customers—a prerequisite to boosting profitability. Integrating the distribution networks and the cross-selling with Interbanca lending and leasing customers offer us a significant opportunity to grow stronger. Concerning non-performing loans, we have developed innovative management and collection solutions as well as acquired sizeable portfolios. This allowed us to increase profitability and achieve an acknowledged leadership position in the market. We effectively managed tax receivables as Italy's Public Administration started paying off its arrears at a faster pace.

The results achieved, as well as our hunger for growth and the vision that guides us, will accompany the development of our Bank. In 2017, we will bolster our presence to increasingly improve our services to businesses and households as well as ensure the Group remains profitable.

These are challenging times for the Bank and the entire credit industry, requiring dramatic changes and the ability to question our way of working. The digital transformation has already unsettled—and will continue chipping away at—the certainties of a system that can no longer afford to pass the cost of its inefficiencies and inability to innovate onto the real economy.

But change is not limited to technology. **Without the people—the women and men that innovate the old ways every day with their work—nothing would change.** We want to thank and acknowledge all 1,300 employees that contributed to an outstanding 2016 and will continue to develop our Project with their imagination and intelligence. Without all of us, all this would not have been possible. Without all of us, the future will be challenging.

CHAIRMAN

The results presented by the CEO give us the strength to tackle 2017 with enthusiasm. This is a crucial year for our Bank, and we are enjoying great success on the stock market. We are certainly not stopping here. We have the resources and room to do much more, achieving new results and meeting the expectations of all the Group's stakeholders—never beholden to the short term, but rather looking years into the future. I want to thank all Shareholders for placing their confidence in our Bank—as well as all the employees that make this project possible.

Presidente	*Amministratore Delegato*
SEBASTIEN EGON FÜRSTENBERG	GIOVANNI BOSSI

BANCA IFIS

Corporate Bodies

Board of Directors

Chairman	Sebastien Egon Fürstenberg
Deputy Chairman	Alessandro Csillaghy De Pacser
CEO	Giovanni Bossi (1)
Directors	Giuseppe Benini
	Francesca Maderna
	Antonella Malinconico
	Riccardo Preve
	Marina Salamon
	Daniele Santosuosso

1) The CEO has powers for the ordinary management of the Company.

General Manager	Alberto Staccione

Board of Statutory Auditors

Chairman	Giacomo Bugna
Standing Auditors	Giovanna Ciriotto
	Massimo Miani
Alternate Auditors	Guido Gasparini Berlingieri
	Valentina Martina

Independent Auditors	EY S.p.A.
Corporate Accounting Reporting Officer	Mariacristina Taormina

BANCA IFIS

Fully paid-up share capital 53,811,095 Euro
Bank Licence (ABI) No. 3205.2
Tax Code and Venice Companies
Register Number: 02505630109
VAT No.: 02992620274
Enrolment in the Register of Banks No.: 5508
Registered and administrative office
Via Terraglio 63, Mestre, 30174, Venice, Italy
Website: www.bancaifis.it

FCI
Facilitating Open Account – Receivables Finance

Member of Factors
Chain International

Businesses and brands

1983 I.f.i.s. spa was born in Genoa

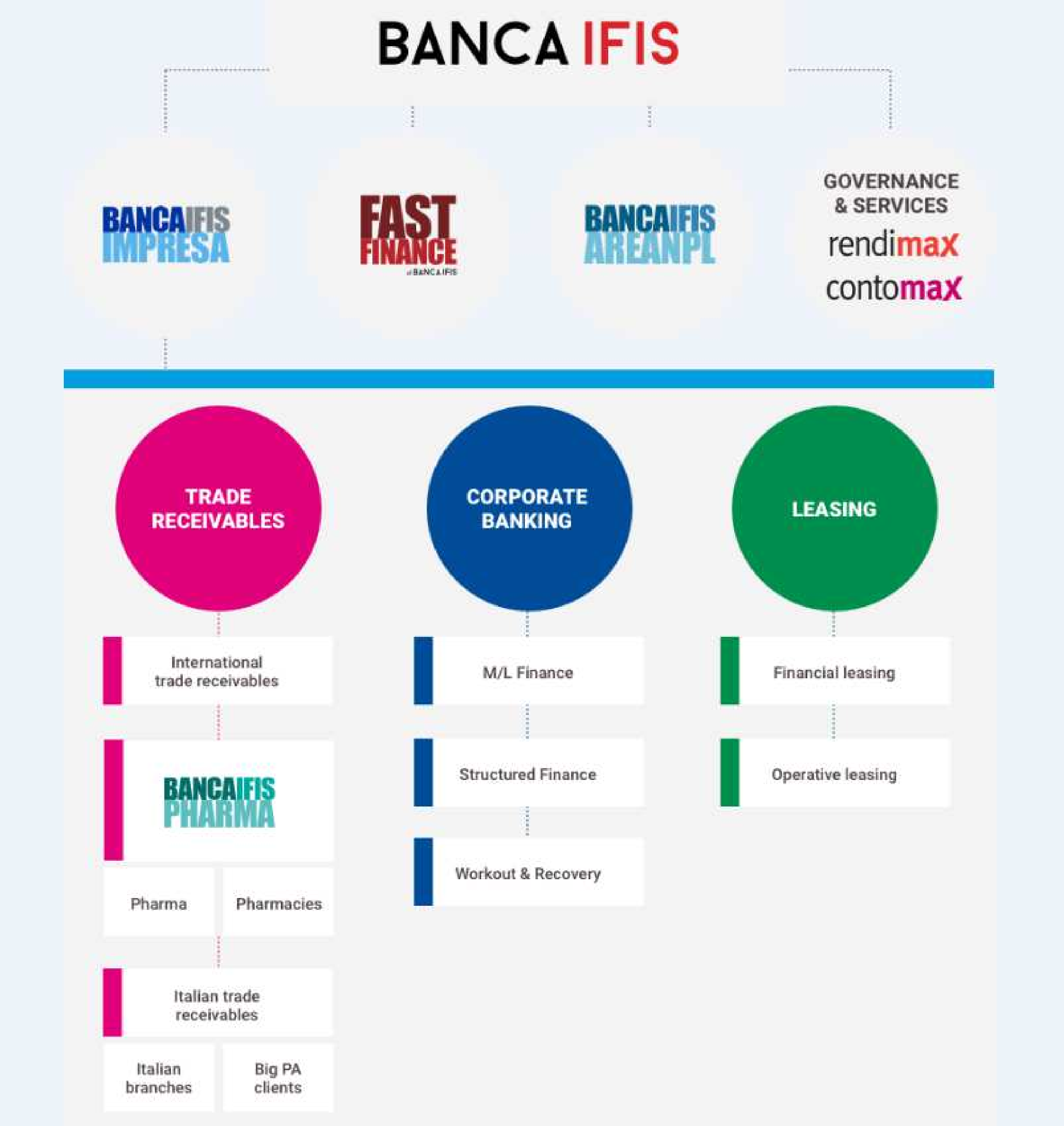
1989 IFIS shares are admitted at the “Mercato Ristretto” of Genoa and in 1990 also of Milan

2003 One year after the start of the baking activity, Banca IFIS is admitted at the MTA (Electronic Stock Market) of Milan

2004 Banca IFIS is admitted to the star segment of the Italian Stock Exchange

BANCA IFIS

Banca IFIS is a bank listed on the STAR segment of Borsa Italiana (IF:IM) that operates in banking sectors with strong profit margins. The Bank has adopted simple and highly-centralised organisational models, allowing to run the individual businesses through local networks and channels, rather than conventional branches. The key elements of our strategies are protecting our capital; investing our liquidity in activities offering adequate returns; and maintaining a high level of liquidity.



Banca IFIS is on a path to expand into certain segments of lending, specialty finance and leasing—which led the Bank to finalise the acquisition of the former Interbanca Group on 30 November 2016.

This resulted in the creation of two new sectors, “Corporate Banking” and “Leasing”, which, together with the traditional “Trade Receivables” segment, operate under the “Banca IFIS Impresa” brand.

The brands through which the Banca IFIS Group operates, financing the real economy, are:

• **Banca IFIS Impresa**, dedicated to short-term factoring, corporate banking (medium/long-term and structured finance), and leases (both operating and finance) for small, medium and micro enterprises. Banca IFIS Impresa operates both in Italy and abroad—especially in Poland, through the subsidiary IFIS Finance, which specialises in factoring services (import/export).

Banca IFIS Impresa targets SMEs that are not benefiting from the liquidity available in the market—including the companies that work with the Italian Public Administration. Banca IFIS Impresa provides several services:

- **Factoring**: with its factoring service, Banca IFIS has a direct presence in business-to-business procurement relationships, allowing the customer to finance its trade receivables and the debtor to enter into customised payment plans. Banca IFIS Impresa offers different types of factoring solutions based on the needs of the company: non-recourse/recourse, export/import, direct/indirect, maturity, outright purchases (ATD, *Acquisti a Titolo Definitivo* in Italian), advances on future receivables, TiAnticipo for the acquisition of certified receivables;

- **Leasing**: with the acquisition of the former Interbanca Group, Banca IFIS Impresa has now entered the market for both operating and finance leases. This is divided in:
    - **Equipment leasing**, a product designed to help businesses and resellers invest in equipment for the IT, Telecoms, Office, Industrial, and Healthcare Equipment sectors;
    - **Vehicle Leasing**, supporting independent contractors and firms in financing company cars and commercial vehicles;
    - **Equipment rental**: it allows the company to use a piece of equipment for a set period of time for a fee, avoiding obsolescence costs. This service is available for IT, Office, Industrial and Healthcare Equipment.

- **Corporate Banking**: a service designed to support companies in their organic or inorganic growth through extraordinary operations to reposition or expand their business, establish alliances or pursue integrations, promote restructuring processes, or introduce new investors and partners into the company. Corporate Banking consists of:
    - **Medium/long-term financing**: supporting the company's operating cycle through services ranging from working capital financing to the support for productive investments;
    - **Structured Finance**: legal and financial structuring and arranging of bilateral or syndicated loans. Controlling market risk through syndicated loans and the placement of units of structured finance arrangements on the market.

• **Banca IFIS Pharma**, through the Pharma Business Unit, supports the trade receivables of local health services' suppliers, i.e. companies seeking to factor receivables due from Italy's National Health Service without recourse—thus protecting themselves from the risk of late payments. Banca IFIS Pharma also supports pharmacists with a dedicated Business Unit that provides solutions designed to meet short- and medium-term financing needs;

• **Banca IFIS NPL Area and CrediFamiglia** operate in the market for distressed retail loans in the consumer retail and micro-corporate sectors. Banca IFIS NPL Area acquires/sells and manages portfolios of non-performing loans, while CrediFamiglia carries out judicial and non-judicial collection operations through different channels: call centre, in-house network, external network, Legal Factory, Legal Small Ticket;

Fast Finance focuses on tax receivables. It collects direct and indirect taxes and tax receivables, either performing or arising from insolvency proceedings. Specifically, it assesses and manages:

- VAT Receivables: for proceedings that are near their end;
- IRES (corporate income tax) receivables from withholding taxes;
- IRES receivables for the failure to deduct the IRAP (regional tax on productive activities) pursuant to article 6 of Italian Legislative Decree 185/2008 and article 2 of Italian Legislative Decree 201/2011.

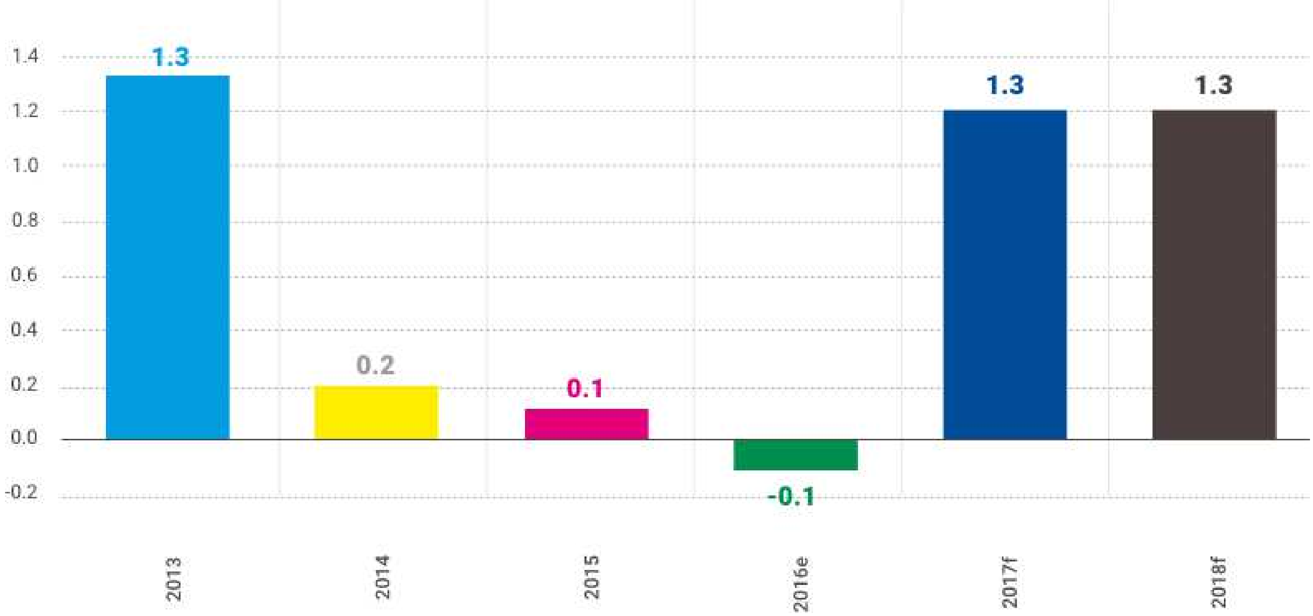
• **rendimax** and **contomax** are the Bank's two retail funding instruments. They are included in "Governance & Services" for segment reporting purposes. Specifically, rendimax is the high-yield online savings account for individuals, companies and insolvency proceedings, while contomax is the free on-line crowd current account and was launched in 2013.

Context

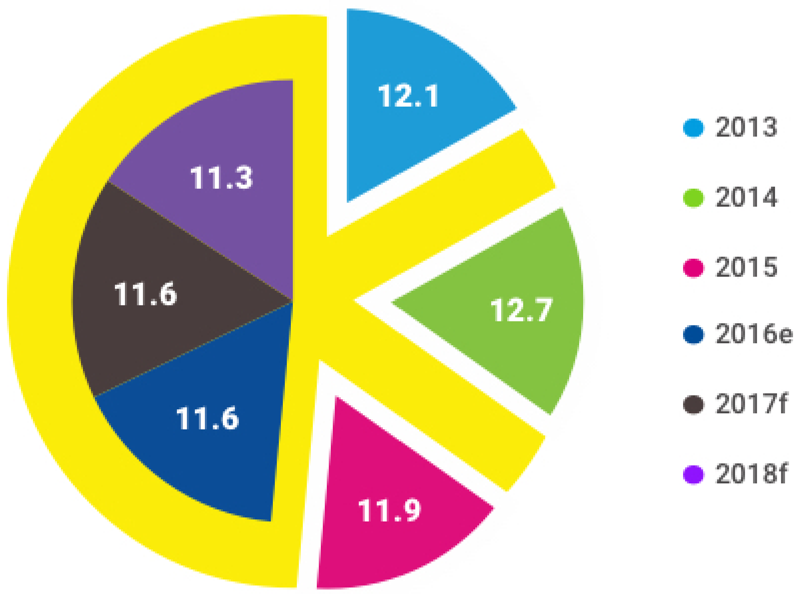
Global economic conditions have improved slightly, but several sources of uncertainty still cloud the outlook— especially in the United States, where the new administration has not yet fleshed out the details of its economic policies: the announced budget plans could have an expansionary impact—although this is currently hard to quantify—but the adoption and spread of protectionist trade measures could act as a drag on economic activity. Global GDP growth could be held back by turmoil in emerging economies as a result of the normalisation of US monetary policy.

The Euro area continues growing at a moderate, if gradually consolidating, pace. The risk of deflation has fallen; prices were up in December—although core inflation is still low. To maintain adequately expansionary monetary conditions and boost inflation, the ECB's Governing Council has extended its asset purchase programme until at least December 2017 or beyond, if need be. Starting from April 2017, the central bank will scale back its monthly purchases to 60 billion Euro.

INFLATION (YEAR-ON-YEAR PERCENTAGE CHANGE)

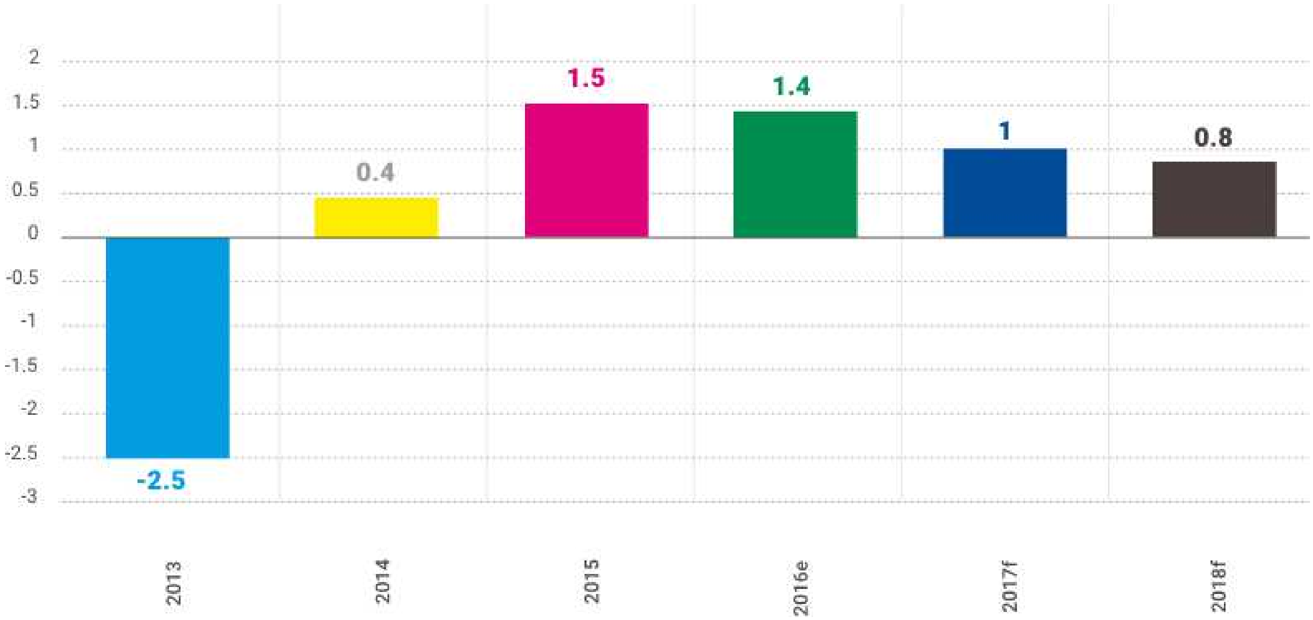


UNEMPLOYMENT RATE (PERCENTAGE)

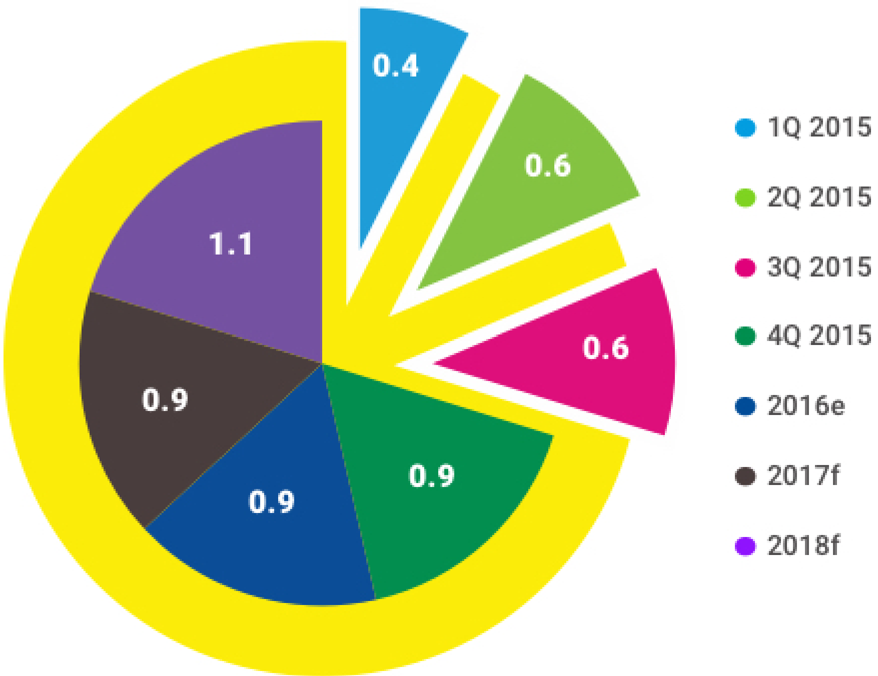


The data shows that the Italian economy continued recovering during the autumn, albeit moderately. Industrial production, energy consumption and freight transport are all up, and business confidence indicators are currently at high levels: therefore, in the fourth quarter of 2016 GDP could have risen at nearly 0.2 percent compared to the previous quarter.

HOUSEHOLD SPENDING (YEAR-ON-YEAR PERCENTAGE CHANGE)

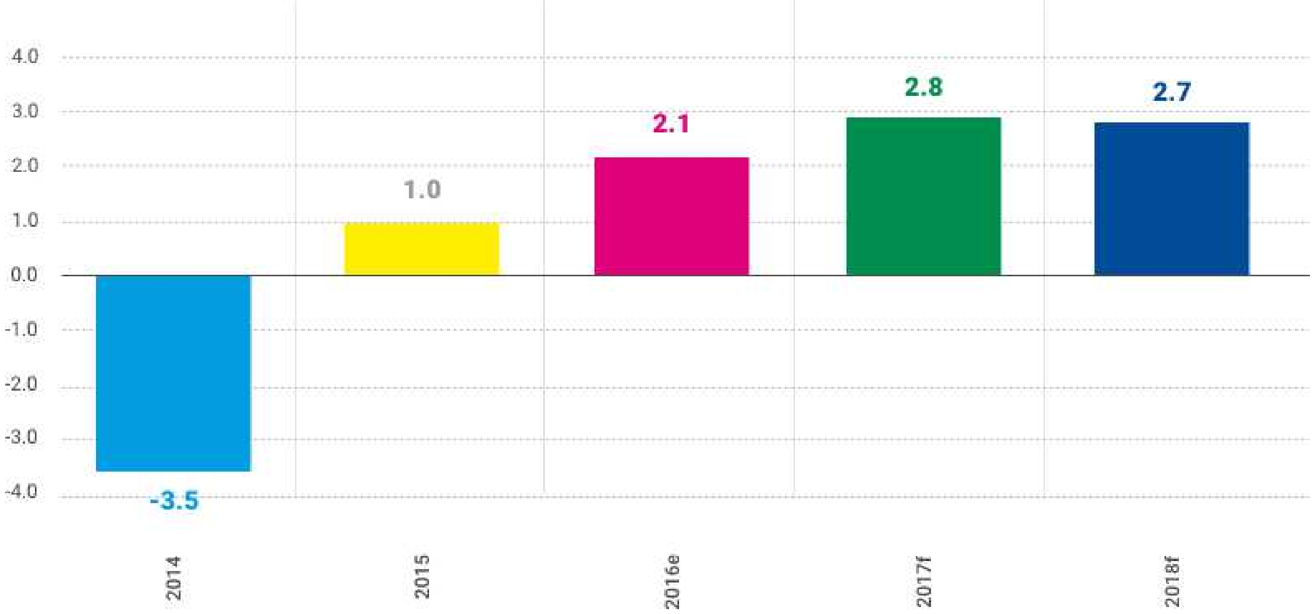


GDP (YEAR-ON-YEAR PERCENTAGE CHANGE)

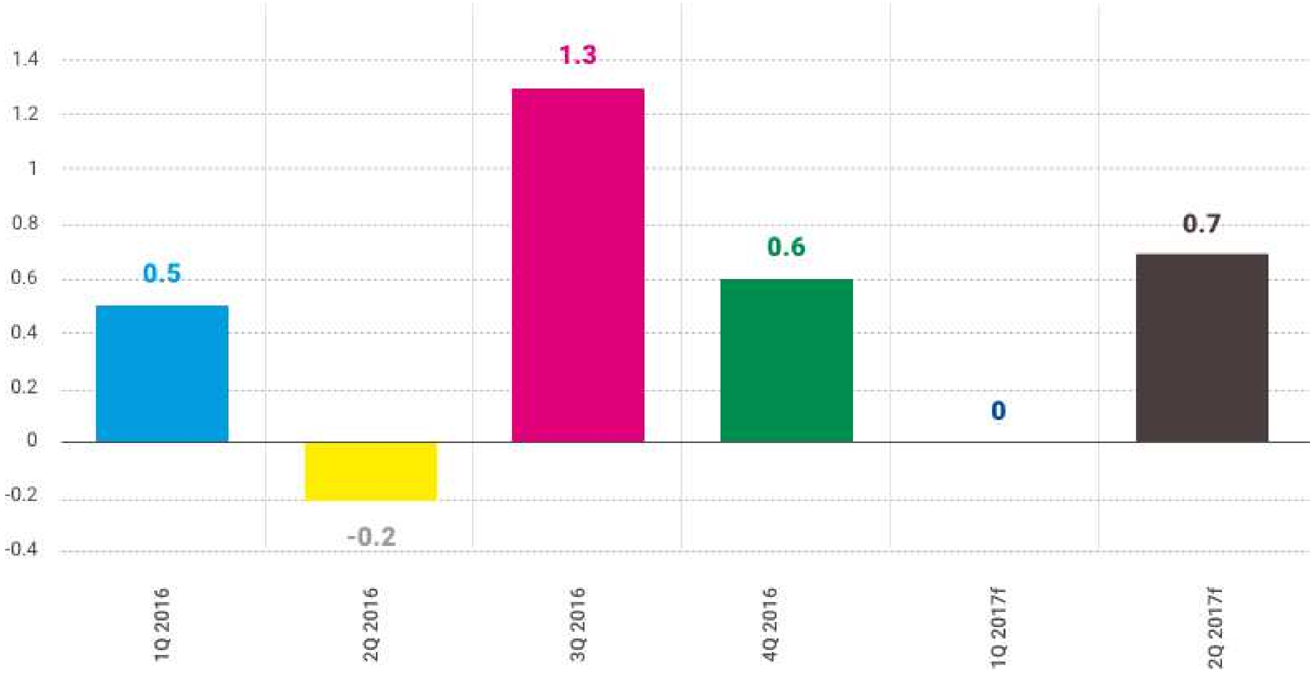


In recent months, lending to non-financial corporations has continued growing, and also business lending is increasing—although growth remains modest. The credit quality of Italian banks continues benefiting from the improved business cycle, leading to a further decline in new non-performing exposures.

INVESTMENT PROJECTIONS (YEAR-ON-YEAR PERCENTAGE CHANGE)

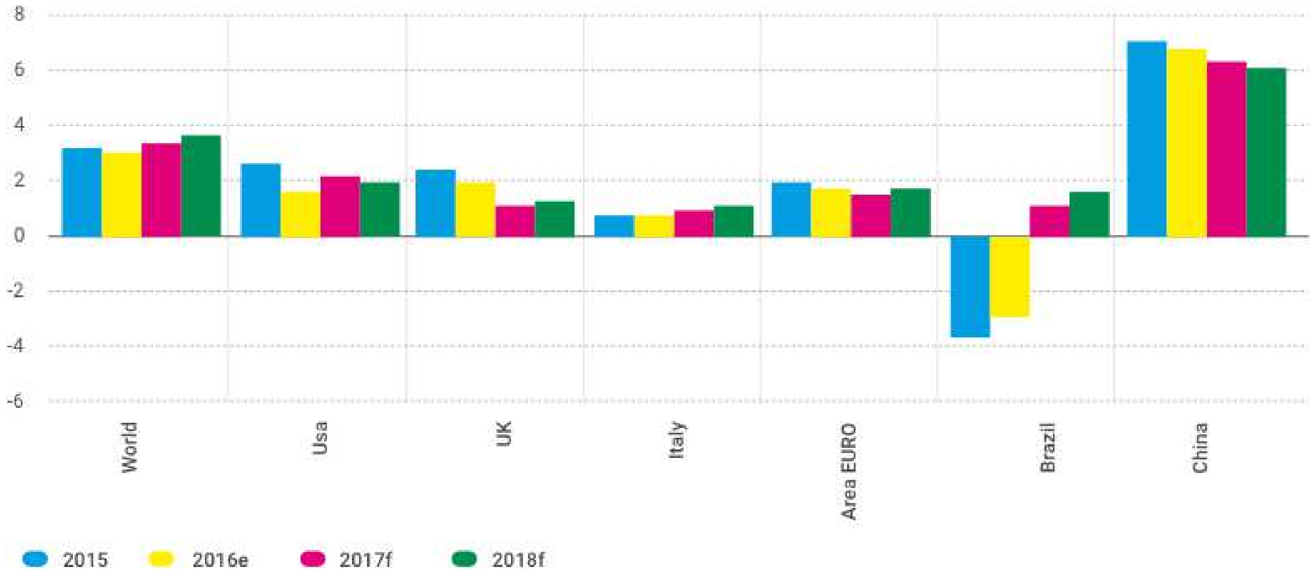


INDUSTRIAL PRODUCTION (YEAR-ON-YEAR PERCENTAGE CHANGE)

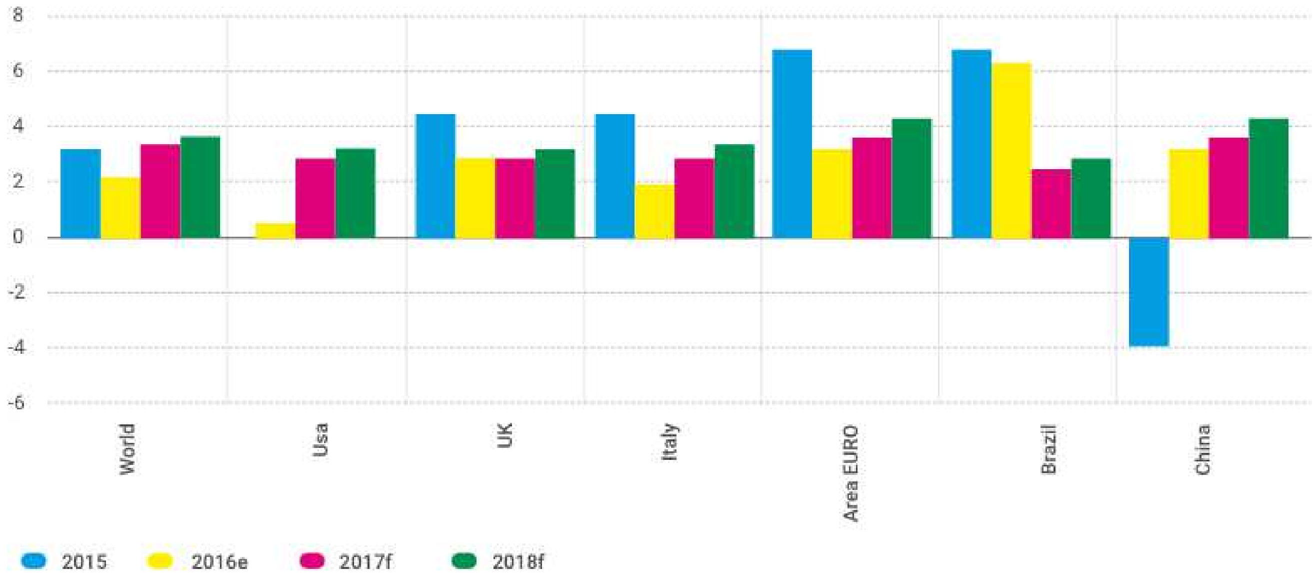


Italy's economy is projected to grow by 0.9 percent in both 2016 and 2017, and 1.1% in 2018 and 2019. Domestic and, starting from 2017, a gradually strengthening foreign demand are expected to remain the main drivers.

GDP



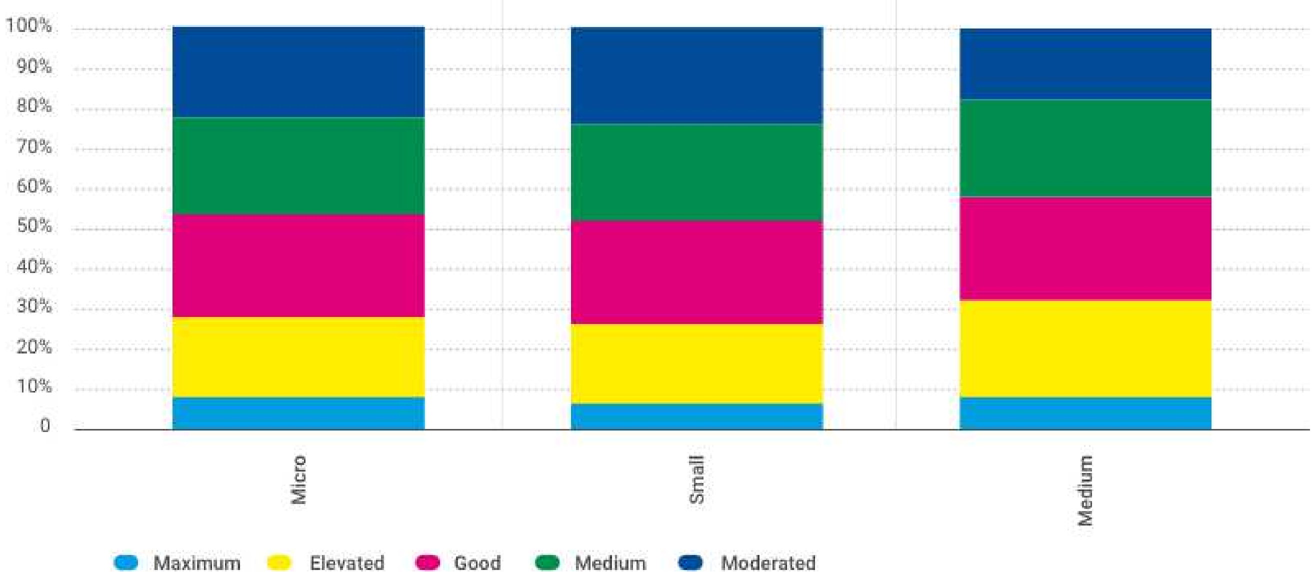
EXPORT



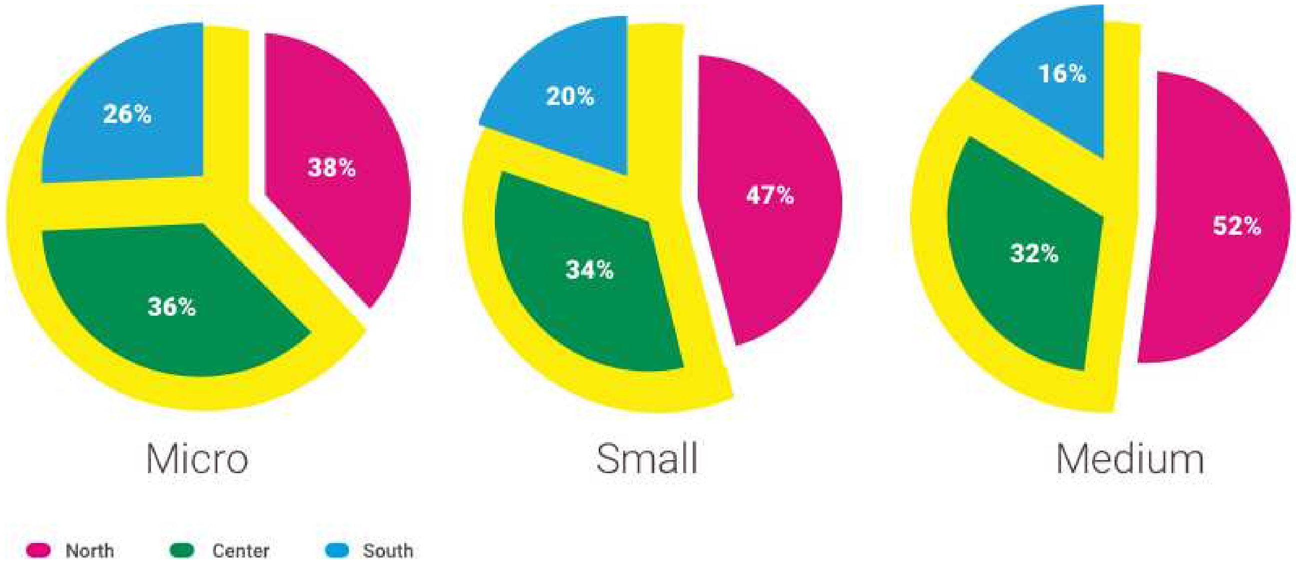
Reference markets

SMEs: SMEs are adequately diversified by size and geography, with a +0,4% increase in 2015. The creditworthiness of this type of businesses is related to their revenues (+3% compared to 2014) and, despite the modest economic recovery, over 50% of SMEs are considered creditworthy, showing also shorter payment times.

BREAKDOWN OF SMEs BY CREDITWORTHINESS

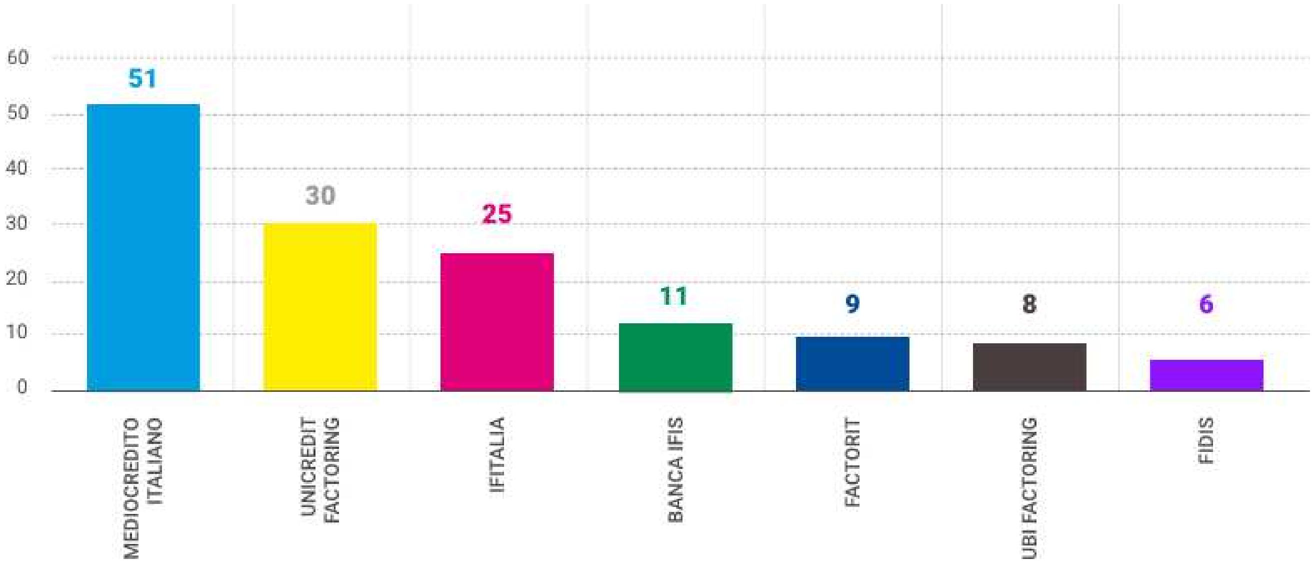


GEOGRAPHICAL DISTRIBUTION OF SMEs



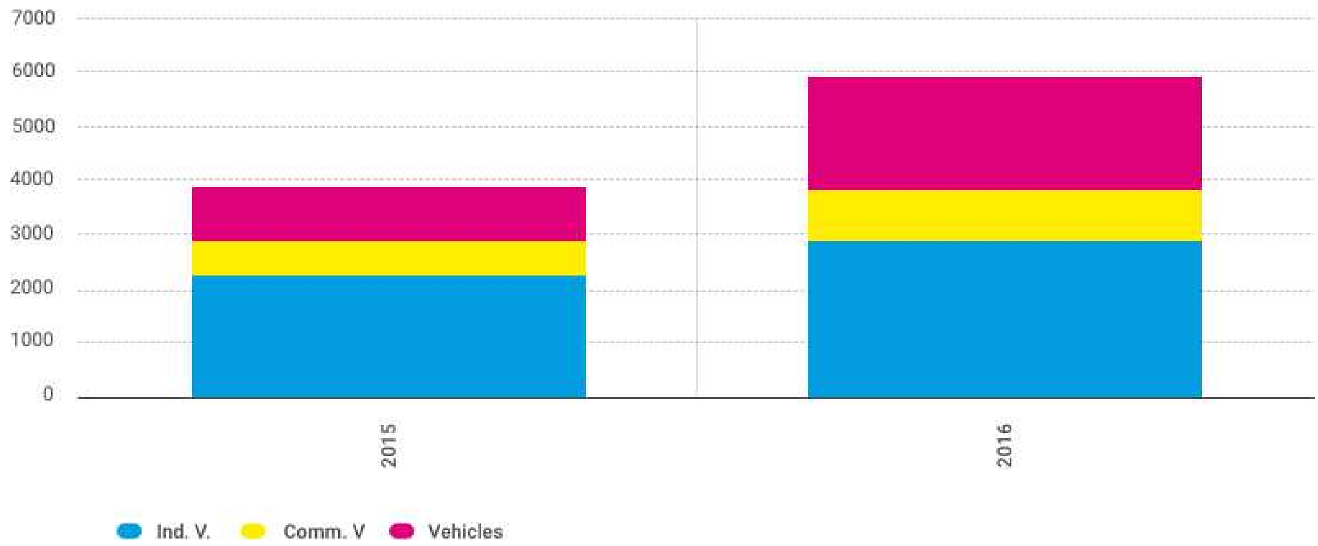
Factoring: Factoring turnover accounts for over 11% of GDP; in 2016, the product's growth rate has gradually increased compared to 2015, as volumes continued rising in the fourth quarter of last year—and the trend is expected to continue into 2017.

2016 COMPETITOR SCENARIO - Billions of €

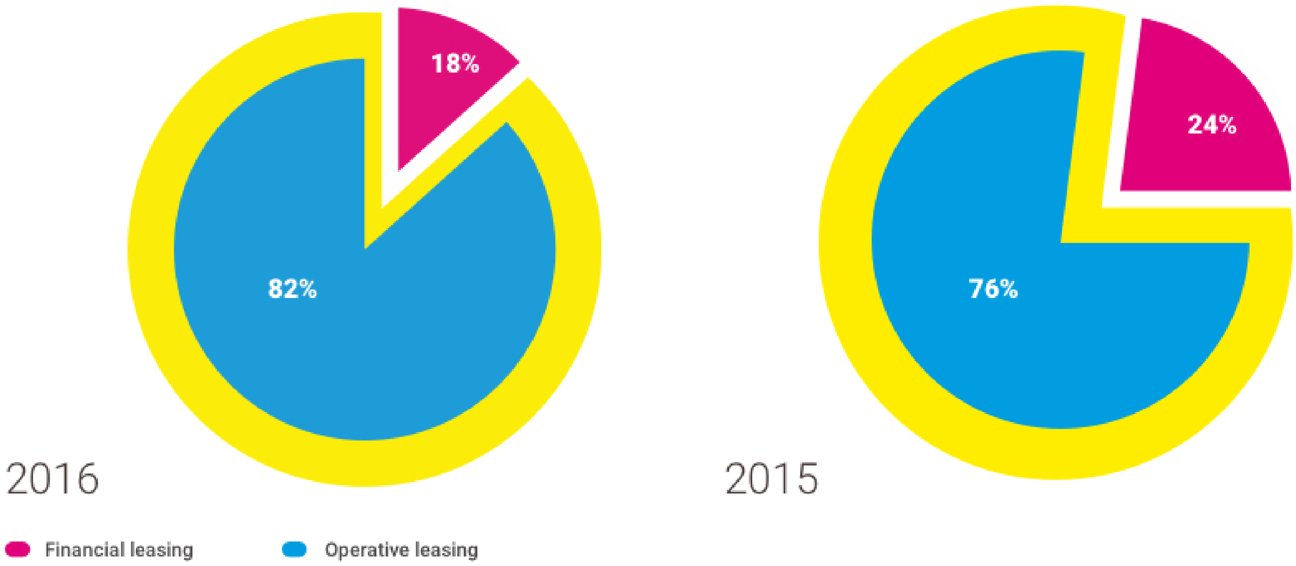


Leasing: In 2016, there was an acceleration in the growth trend that began in 2014, especially concerning light commercial vehicles and industrial ones. Leasing is forecast to continue growing in 2017, as businesses must keep on upgrading their equipment—and also because of government-backed incentive schemes for SMEs, which account for 75% of leasing volumes.

TRANSPORTATION LEASING (Volumes Dec. YTD)



EQUIPMENT LEASING (Volumes Dec. YTD)

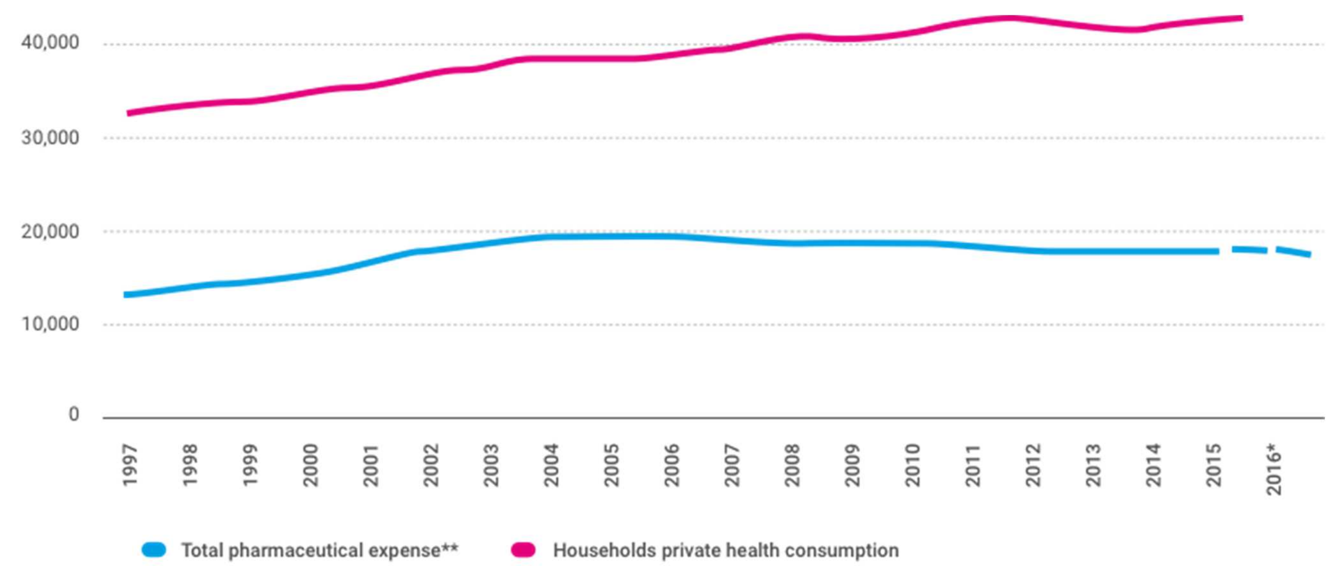


Structured Finance: Activity in the Italian M&A market remained brisk also in 2016, with 1.204 deals totalling 80 billion Euro. This trend was especially apparent in the Mid Size segment, where volumes were up +29.5% compared to the prior year. The financial sector saw the most number of deals, followed by construction. As for leveraged finance, in 2016 private equity funds made at least 125 investments in either Italian companies, directly or through firms in their portfolio, or businesses based abroad through Italian firms. All this resulted in an expenditure of more than 7 billion Euro. Most deals referred to SMEs. Approximately thirty of them involved companies with more than 100 million Euro in sales, and just ten concerned firms with more than 500 million Euro in revenues.

Short-term financing: short-term lending to businesses and professionals fell 5% from the end of 2014 in terms of loans approved and nearly 10% in terms of drawdowns. The decline in short-term loans was concentrated in current account overdraft facilities. The breakdown by amount shows a positive trend only in minor loans.

Pharma and Pharmacies: In the pharmaceutical industry, the payment of arrears owed by the Italian National Health Service to its suppliers is still a critical issue for Italy's public finances. At December 2016, there was more than 2,5 billion Euro in outstanding debt, concentrated mainly in Tuscany, Piedmont, Calabria, and Apulia. As for pharmacies, their number (currently 18.200) is expected to rise by approximately 2.500 as a result of the “Grow-Italy” decree. Prescription drugs account for 60% of pharmacies’ turnover, while the remaining 40% is represented by over-the-counter products; para-pharmaceuticals; cosmetics and personal care products; and dietary supplements.

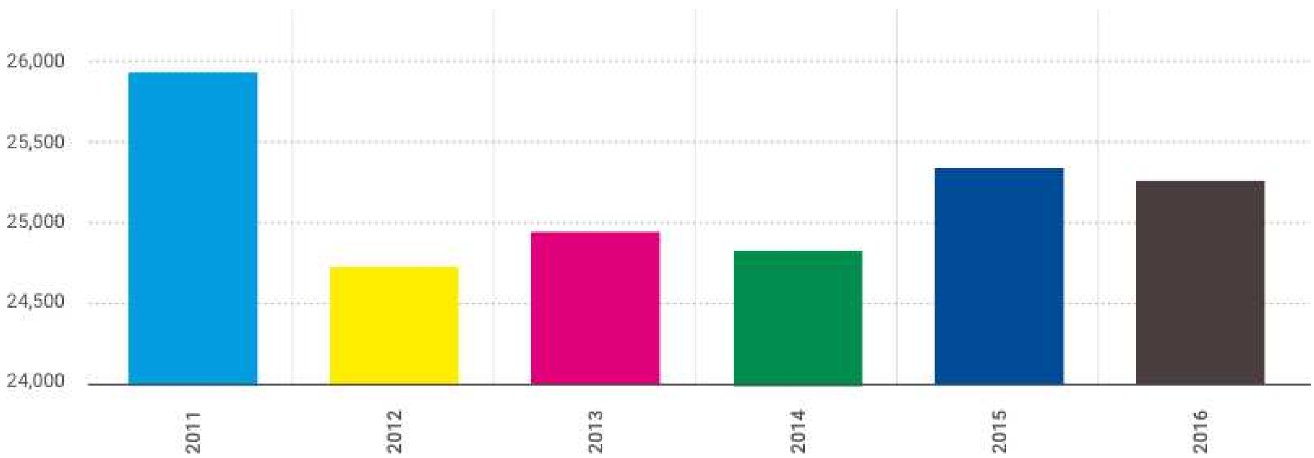
HOUSEHOLD PHARMACEUTICAL AND PRIVATE HEALTHCARE SPENDING*



*2016 data is an internal forecast based on the first 9 months of the year

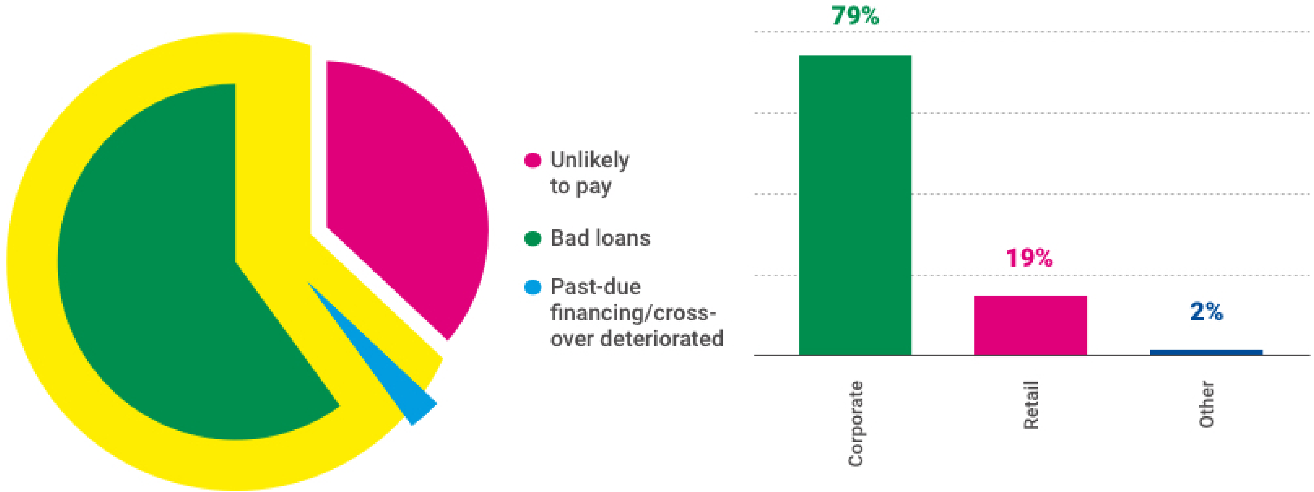
**Source: Farmindustria elaboration on ISTAT data, IMS **Comprehensive of the pharmacy channel, GDO and para-pharmacies gross of playback

TURNOVER OF PHARMACIES



Non-Performing Loans: NPLs referring to non-financial corporations remain steadily above 140 billion Euro, and also NPLs to producer households are stable at slightly below 16 billion Euro. NPLs have been rising as a proportion of loans, and are especially prevalent in the retail segment. As for the legal framework, the Italian government introduced a guarantee scheme for bad loan securitisations and reformed the NPL resolution process.

GROSS NON-PERFORMING LOANS

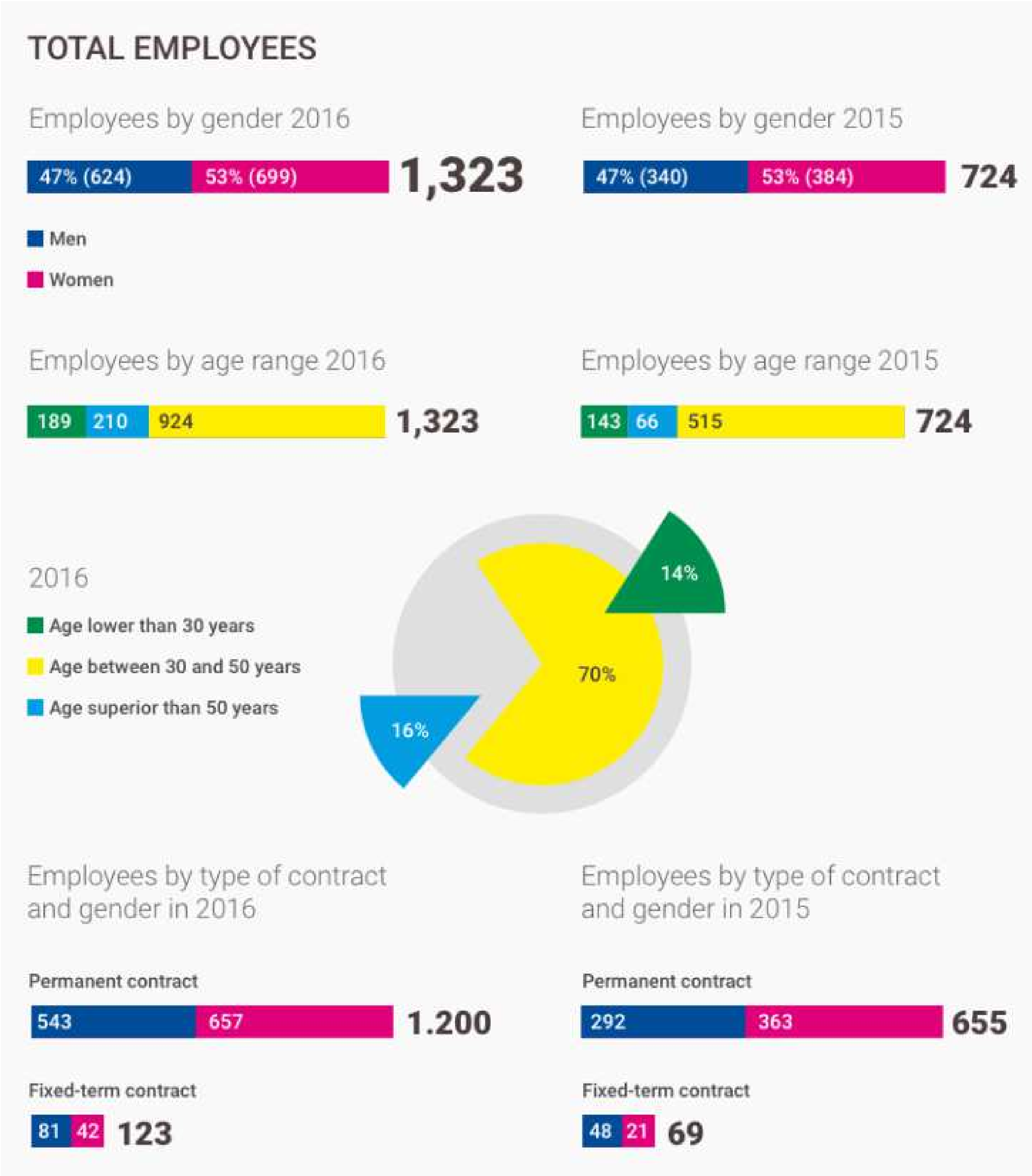


Tax receivables: In the first nine months of 2016, 10 thousand companies filed for bankruptcy. Insolvency proceedings are still at historically high levels, but were down 6% from the prior-year period—when they had declined 3,8% compared to the first nine months of 2014. Non-bankruptcy workouts continued falling: they numbered 1,3 thousand between January and September 2016, down 32% year-over-year.

Funding: the trend in household and corporate deposits remains positive. Households are especially interested in time deposits, while businesses are increasingly setting aside funds for investments.

The Bank

People[1]



[1] The following data include in 2016 the scope of Interbanca S.p.A., which joined the IFIS Group in December 2016

People management

Performance appraisal

People are key to accomplishing the Group's goals. Therefore, human resources management seeks to promote the competencies and skills of each individual and provide opportunities to fulfil their potential.

In this context, periodic performance appraisals are crucial: they focus on the person's set of behaviours, derived from the possession and implementation of theoretical knowledge, specialist know-how, skills, approaches and mindsets (such as professionalism, dedication, fairness, availability and initiative), and aim to help people develop as well as to identify skill training needs.

The appraisal is conducted in accordance with legal and contractual provisions, ensuring the assessments are fair as well as simply and clearly represented.

The Performanagement appraisal process is carried out once a year and involves the following steps:

- **self-assessment**: the employee self-assesses his skills and competencies;
- **assessment**: the direct supervisor gives his opinion on the employee's skills and technical-specialist competencies;
- **HR Specialist monitoring**: the HR specialist reviews the performance appraisal forms and submits them to the Head of the relevant organisational unit for validation; during this stage, the specialist may return the appraisal form to the appraiser citing any missing information, inconsistencies or issues to explore further;
- **Feedback interview between the employee and the Supervisor**; during the interview, the appraiser discusses with the employee his strengths and weaknesses as well as the training plan that will help him or her bridge the gaps.

Based on the result of the performance appraisal process, Banca IFIS rewards and acknowledges the best-performing employees and identifies which technical or management skills need to be consolidated or developed through training.

Professional training and development

Banca IFIS commits to providing training to all employees and promoting participation in refresher courses and training programmes in order to help each individual fully realise his or her skills and expectations, and thus contribute towards the Group's goals.

Every year, based on the result of the performance appraisal process and the qualitative gaps identified by the Human Resources Strategic Plan, Banca IFIS designs, plans and implements a training programme for all employees (approved by the General Manager), monitoring actual employee participation and its effectiveness, placing special emphasis on mandatory training activities.

There are three types of training:

- Management, behavioural and technical training based on the performance appraisal process;
- Mandatory Training concerning:
  - Administrative Liability (as per Italian Legislative Decree no. 231 of 2001);
  - transparency in banking operations and services;
  - anti-money laundering and counter-terrorist financing;
  - employee health and safety;

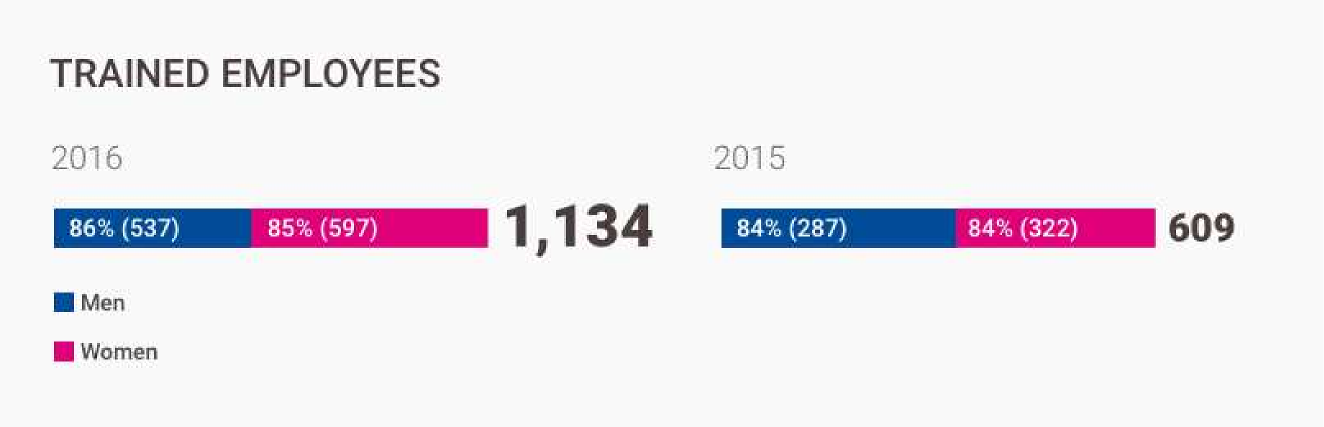
    - o IT security;
    - o privacy (Italian Legislative Decree 196/2003).
- Training courses for contingent or emerging needs, such as regulatory changes or new business priorities requiring in-depth studies of certain topics in order to acquire specific skills in a short period of time.

Based on the topic to explore and the target level of knowledge, Human Resources Development identifies the most effective and efficient training method. These methods include:

- management and behavioural training workshops (in-house and external);
- specialised technical training (in-house and external);
- on-line courses;
- external seminars / conferences;
- training on the job.

Based on the training needs emerged from the 2015 performance appraisal process, in 2016 Banca IFIS provided soft skill training as well as technical courses. It also provided mandatory and specific training courses to employees hired during the year in order to speed up the onboarding process as well as improve performance and the organizational climate. The most popular training methods in 2016 were E-learning, in-class training, and one-to-one training.

In 2016, the Bank placed special emphasis on including and promoting female talent through two training and awareness-raising initiatives: *Leadership in action*, a one-day course reserved for the middle management and attended by 26 participants , and the *Diversity and Inclusion workshop*, a two-day event attended by 16 employees.



HOURS OF TRAINING

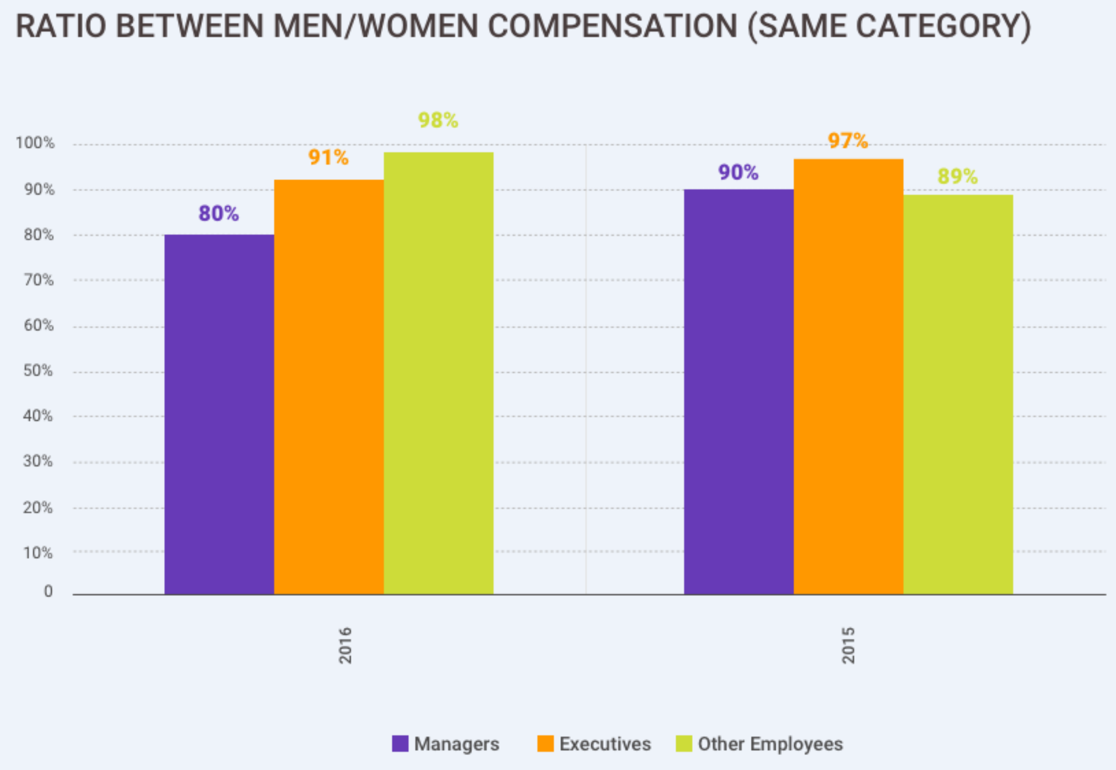
Data of Interbanca perimeter are comprehensive of the internal training only. Data exclude, therefore, courses supplied by the former parent company or individual courses with external participation

Protection and respect of employees

The IFIS Group refuses to adopt policies that discriminate against employees or applicants based on gender, age, religious or political beliefs and trade union affiliation, as well any form of nepotism and preferential treatment. All Group companies commit to ensuring that management and the heads of the individual business units treat their Employees fairly, guaranteeing their professional growth and fostering a workplace climate based on the principles of fairness and loyalty.

These principles shall apply at all stages of the company-employee relationship, from recruitment to hiring, the periodic performance appraisal, the access to training opportunities, remuneration and incentive schemes, and the end of the employment relationship.

As for remuneration policies, the analysis of the ratio of female-to-male pay shows limited differences for middle and senior managers and equality among clerical staff.



In addition, the Group's companies commit to protecting Employees who report unfair and/or illegal business practices as well as facilitating and promoting access to data and information relevant to any investigation. As the Parent Company, Banca IFIS, consistently with regulatory provisions and best practices, has established an internal reporting system that guarantees the privacy of all parties involved in any violation, also in order to protect the complainant from retaliation and discrimination.

Workplace health and safety

In accordance with the guidelines in the Organisational and Management Model as per Italian Legislative Decree 231/01 and the "Consolidated Law on Workplace Health and Safety" (Italian Legislative Decree no. 81 of 2008), Banca IFIS has prepared an “Integrated Safety and Environment Manual” that defines its Safety Policy and the relevant procedures and adopts a system to ensure compliance with legal requirements and prevent the offences set out in Italian Legislative Decree no. 231/01.

The organisation responsible for health and safety is comprised of the Head of the Prevention and Protection Service (RSPP, *Responsabile Servizio Prevenzione e Protezione* in Italian), a Prevention and Protection Service Officer (ASPP, *Addetto al Servizio di prevenzione e protezione* in Italian), and two delegations of functions to the heads of Human Resources and General Services, as well as a series of managers and members of emergency and first aid teams. The Integrated Manual includes a Competency Matrix that outlines the roles and competencies of the various functions concerning health and safety with the aim of designing the relevant operational procedures. Ultimate responsibility for identifying and managing measures to protect employee health and safety lies with the General Manager.

Pursuant to applicable laws and the procedures in the Integrated Safety and Environment Manual, Banca IFIS identifies and assesses the risks employees are exposed to by preparing the Risk Assessment Document (DVR, *Documento di Valutazione dei Rischi* in Italian) and holds two meetings every year to inform the General Manager, Employee Safety Representatives and the Occupational Physician about the work carried out. During the year, continuous Safety Follow Ups and Audits—either conducted in-house by the RSPP or Internal Audit, or by external parties at the request of INAIL [Italy's National Institute for Insurance against Accidents at Work]—verify compliance with applicable laws and whether policies and programmes are being properly implemented.

The main initiatives carried out in 2016 concerned:

Continuous securing of the Bank's environments that have endured layout / destination changes.

Documents collection on the construction/contractiong intervention towards the risk of interference (DUVRI, POS, Safety Coordination Minutes, Training certificates and qualification licenses, etc.).

Management and coordination of health and safety in work environments in the new NPL Area in Florence. The restoration of the spaces was a long and complex project carried out by safety team because of the important dimension of the property, that included deep risks-assessments.

On-site controls, evacuation trials in the various branches and offices with more than 10 employees, reporting and monitoring of all the topics relating to the DVR documents.

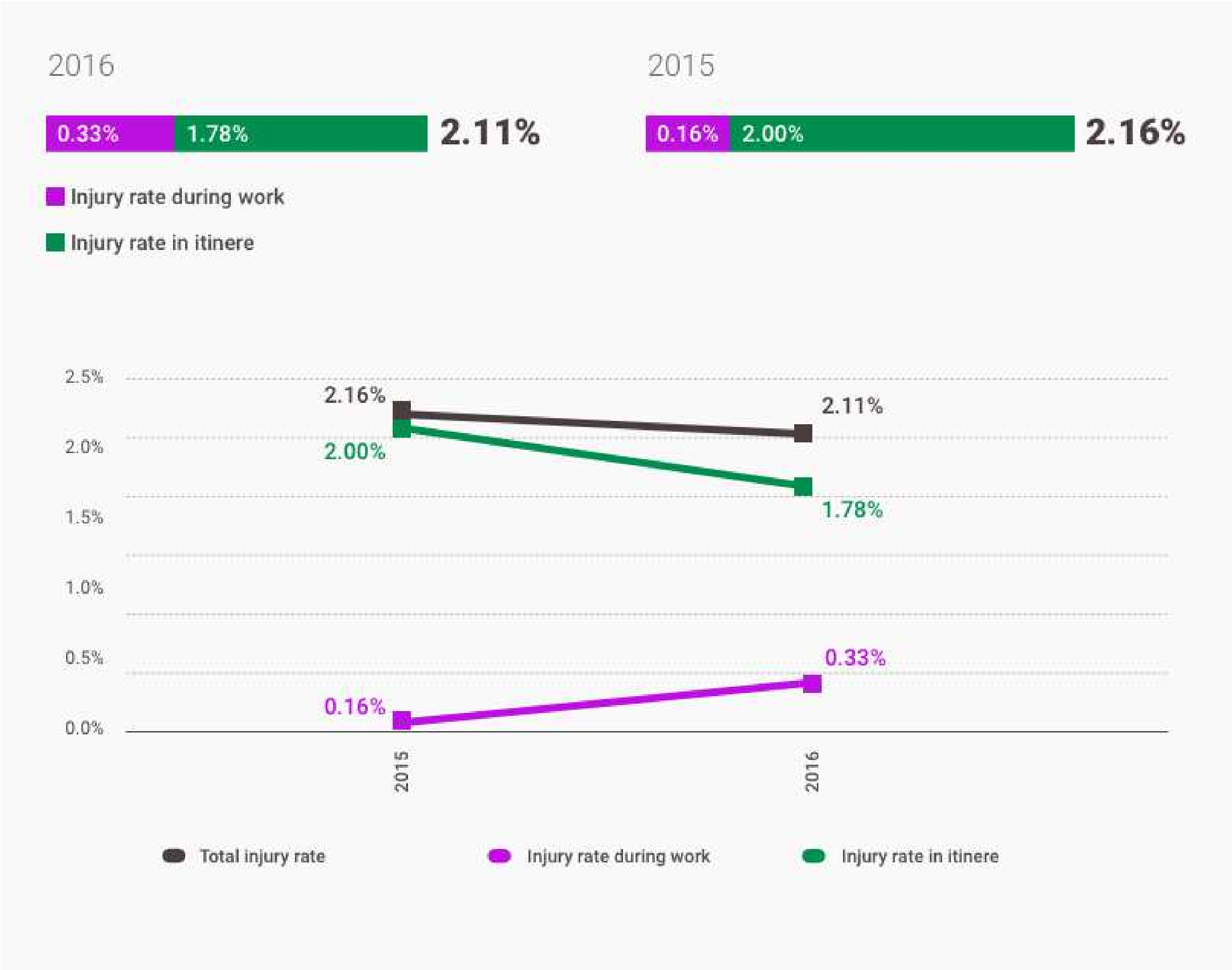
Realization of a e-learning base course for employees training and periodical organization of training courses dedicated to the first aid teams and of emergencies for the people appointed.

To support employees—especially those of the sales network—involved in criminal events, an "Emergency Plan" including information about what to do in the case of robberies, attacks or acts of sabotage is available on the Bank's intranet.

Another important issue is preventing health problems related to computer use and maintaining the same posture for long periods of time. In this regard, the Group provides (subject to medical prescription) lumbar pillows to improve workplace ergonomics and controls natural light with Venetian blinds to reduce glare on computer screens.

Here below is the Group's work injury rate for the last two year, broken down by type:

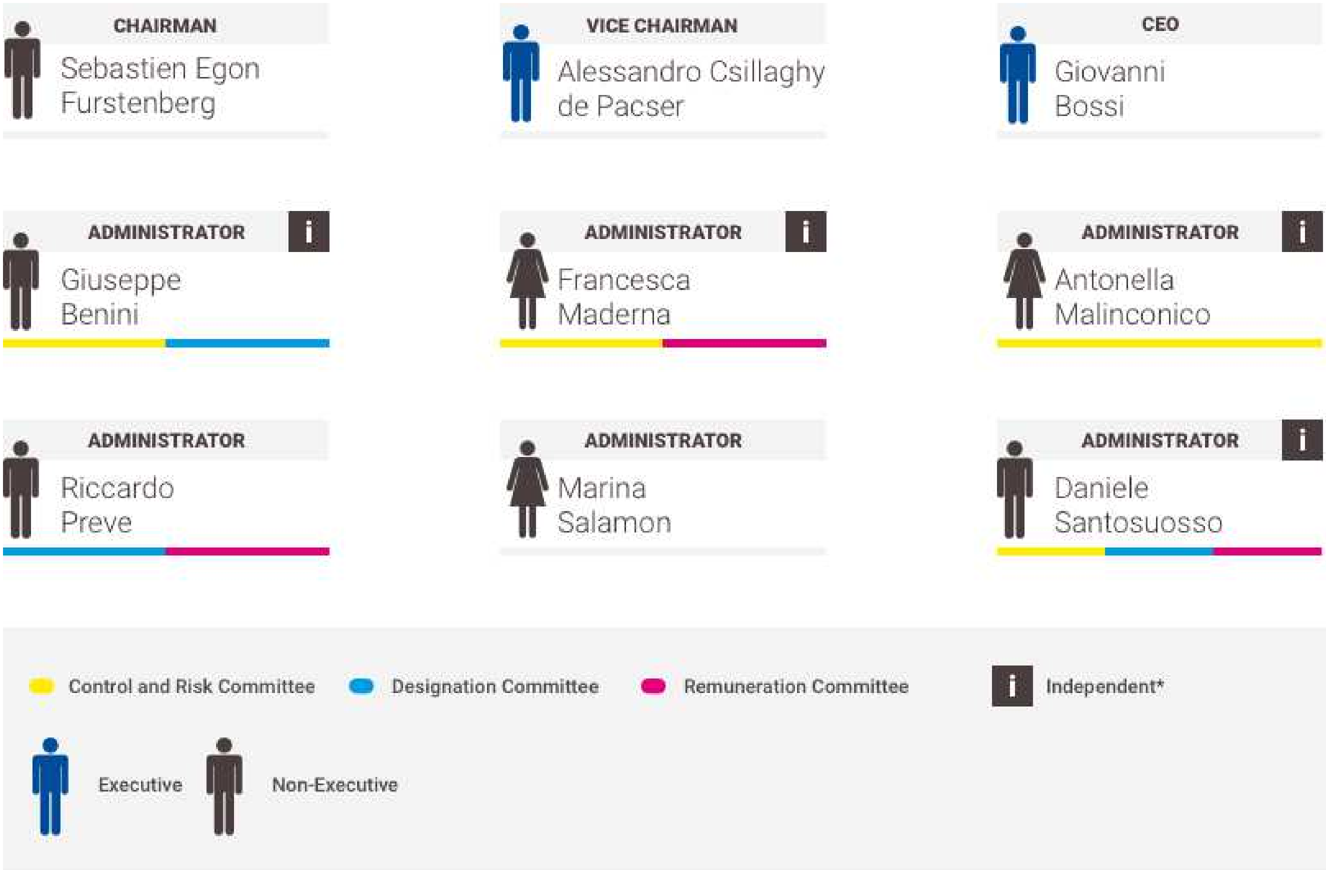
INJURY RATE BY TYPE



How we operate

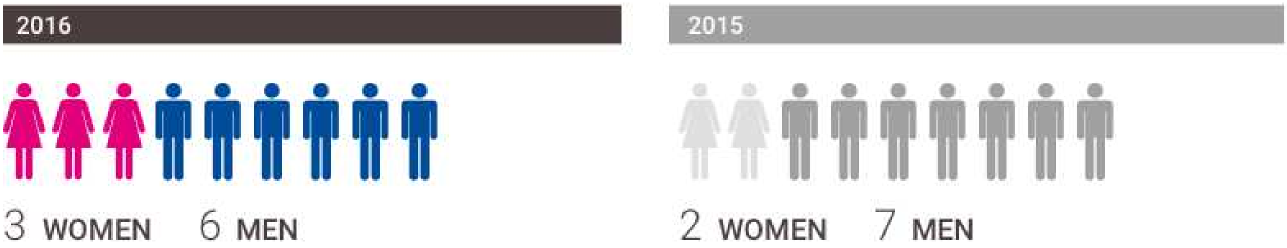
The Group's Governance[2]

BOARD OF DIRECTORS AND BOARD COMMITTEES



* Independent Board Member based on the requirement of the Self-Discipline Code and TUF

Board of Directors composition by gender



[2] For more information, see the Report on Corporate Governance and Shareholding Structure (available at www.bancaifis.it).

The Board of Directors has all powers for the ordinary and extraordinary management of the Company, excluding only those reserved to the Shareholders' Meeting by law.

In addition, it approves the Environmental Policy, informing all workers about it, and delegates decision-making and spending authority to identify and manage the general measures to protect the health and safety of employees in the workplace.

Once a year, the Board of Directors receives a report on the activities carried out concerning employee health and safety and environmental protection, as well as a self-audit on the proper implementation of the Integrated Safety and Environment Manual.

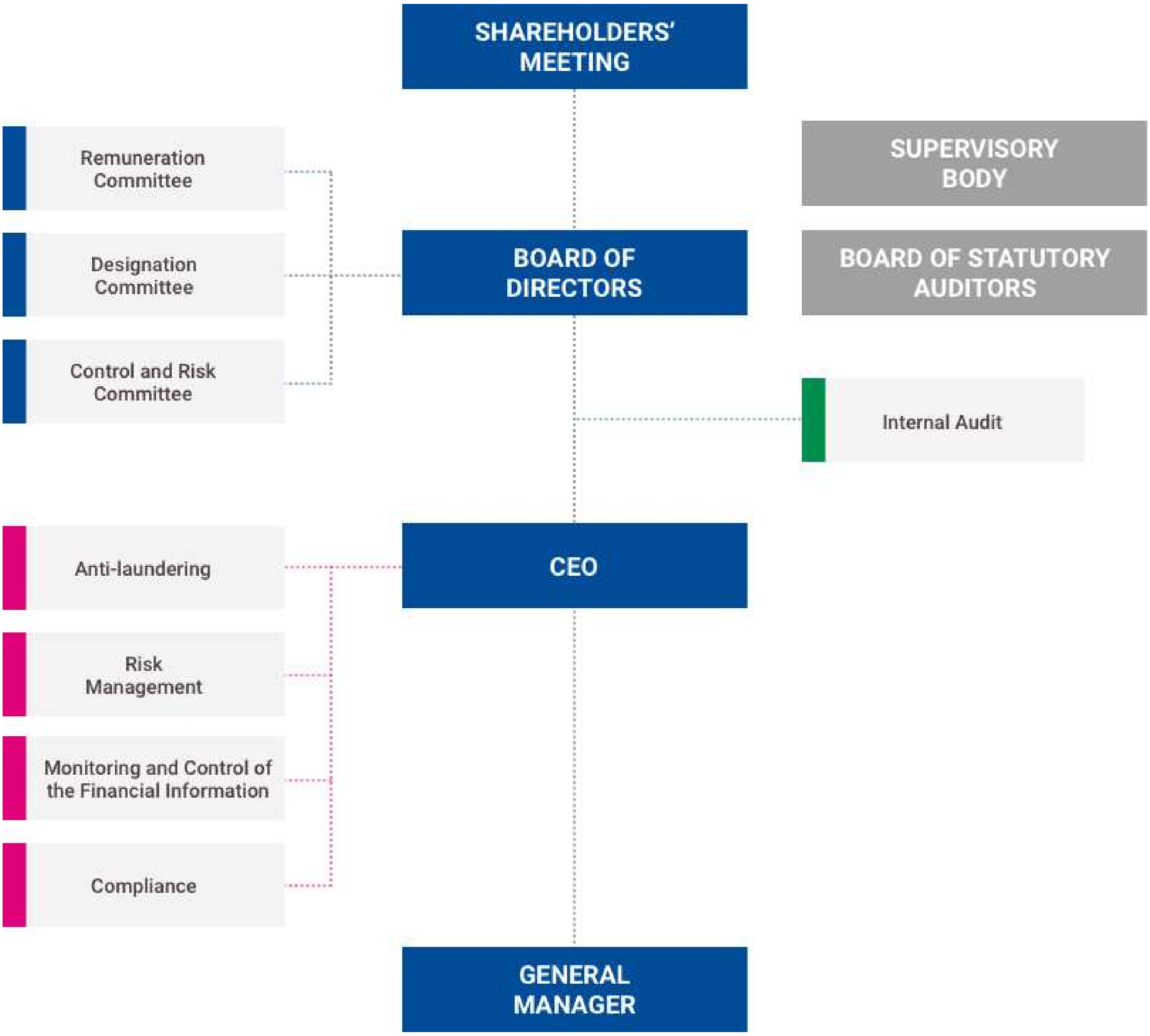
Control and Risks Committee

The Control and Risks Committee, which provides advice and proposals concerning control operations, gives its opinion on the identification of the main corporate risks, including social and environmental risks (specifically, those related to corruption, the environment, and employee health and safety).

BOARD OF STATUTORY AUDITORS

* Auditors independent based on the requirement of the Self-Discipline Code

Organisation



Banca IFIS's Organisation has actively participated in all the Bank's change management initiatives, supporting the business units in developing the potential of the reference markets as well as making operational processes more streamlined and efficient. During 2016, the Bank activated over **30 new projects**, nearly ten of which were considered highly strategic.

The effort dedicated to the **12 areas** of the project for the acquisition of the former Interbanca Group, as well as the preparations currently under way for the migration of Cedacri's Core Banking system, must be seen in this context.

In addition, consistently with its mission, the Organisation constantly oversees the Bank's regulatory framework, ensuring compliance with Supervisory provisions as well as support to the control functions in defining the required regulatory controls.

Operations

In 2016, the Operations department consolidated the radical organisational change that began in late 2015 with the aim of revising and innovating the operational model as well as technological solutions. The new organisation involved a significant increase in staff—especially in the ICT area, which saw an influx of experienced employees into middle management in order to help implement important change initiatives as well as of young new hires with specialist technology skills to develop new digital applications in-house. Through the ICT Strategic Plan prepared in accordance with the prudential supervisory provisions for Banks, the Operations department has charted a new way forward for the Bank in order to grow the size of the Business as well as offer new operational models based on Fintech. Therefore, the Bank made significant investments in rationalising the core banking systems in the medium term, leveraging leading Outsourcing solutions, as well as in developing digital solutions in-house to grow the Business of the Factoring, Non-Performing Loans and Digital Bank specialist areas, while maintaining an innovative and distinctive character. This entailed completing the initiatives to adopt digital native solutions, introducing digital signature processes and mobile tools to support customer interactions. In addition, Banca IFIS has launched a wide-ranging strategic initiative to advance the digitisation of its operational model further, centring it around the Salesforce platform. The goal is to reduce the time to market in developing the bundling of new products, enable mobile cross-selling processes, and overhaul the user experience for both Customers and employees by streamlining and automating processes. During the year, the Bank also introduced SAS-based Big Data tools and solutions, laying the foundations for the evolution of Data Warehouse and Analytics systems in order to support decision-making and risk control processes. In addition, in the last quarter of 2016 the Operations department supported Banca IFIS's extraordinary operations, which changed the Group's structure and will be key for the projects of the coming year.

Risk Management

The Group's overall risk governance and management structure is governed by the Risk Appetite Framework and the relevant documents, which are constantly updated based on the evolution of the Group's strategic framework. Concerning the recent acquisition, Banca IFIS is currently aligning and integrating risk governance and management methods while taking into account the peculiarities of each business (factoring, corporate finance, leasing, NPL).

Banca IFIS has prepared a Taxonomy of Risks describing how it identifies the existing and/or potential risks the Group could be exposed to in pursuing its strategic goals, and implements tools suited to prevent and mitigate each type of risk.

Concerning **operational risks**, Banca IFIS has defined and implemented a management and governance framework that involves structuring a robust Loss Data Collection process, which extends to its local network and the Polish subsidiary IFIS Finance, as well as conducting periodic Risk Self Assessments. As for the newly acquired entities of the Group, a process similar to the Parent Company's one was already in place. We are currently aligning performance metrics and assessment instruments.

As for **credit risk** referring to trade receivables, Banca IFIS uses an Internal Rating System for Italian businesses that was developed using proprietary databases and consists of:

- a “financial” module, to assess the company's operating/financial soundness;
- a “central credit register” module, presenting the evolution of counterparty risk vis-à-vis the banking industry;

- an “internal performance” module, monitoring the performance of the factoring relationships between the counterparty and the Bank—especially as far as the account debtor is concerned.

This rating is used also in credit monitoring as one of the drivers to identify early warnings.

The expansion of the company's scope required launching a wide-ranging project to overhaul counterparty rating models in order to make them consistent across the Group. The risk management structure will work on this project throughout 2017.

As for non-performing loans managed by the NPL Area as well as tax receivables, the Bank has enhanced the monitoring and control process concerning the portfolio's **collection risk**, thanks to technological solutions allowing to easily manage large data sets. This has made the relevant reporting set more robust as well as allowed to evaluate the performance of the credit assessment model.

Referring again to non-performing loans, Banca IFIS revised and implemented a new SAS-based model to assess positions subject to judicial collection processes for which the judge has issued a garnishment order.

Liquidity and **interest rate** risks are managed at the Group level (including the positions of the newly acquired companies), and the Bank is currently reviewing the governance and monitoring policy for such risks. The calculation of Basel 3 indicators is now fully operational, including the calculation of the two liquidity ratios: Liquid Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

As for **reputational risk**, which potentially concerns most of the Bank's operational units, we have considered both external and internal factors as well as specific events concerning the individual operational units that could damage the Group's reputation in order to assess their impact. These factors include, for instance, employee dissatisfaction and turnover as well as accidents due to the failure to comply with health and safety regulations.

Integrity and fairness[3]

To ensure the Bank conducts its operations transparently and fairly, thus preserving its institutional role and image as well as meeting the expectations of shareholders and stakeholders, Banca IFIS has adopted an Organisational and Management model pursuant to Italian Legislative Decree 231/2001.

This Model allows to raise the awareness of the Bank's employees about the need to act fairly and properly in the discharge of their duties so as to prevent the risk of committing the offences listed in Italian Legislative Decree 231/2001 (including – among other things – corruption between private persons, environmental crimes, and offences associated with the failure to comply with workplace health and safety regulations).

Code of Ethics

A key part of the Organisational Model is the Code of Ethics, which sets out the Bank's rights, duties and responsibilities relative to all parties it engages with (customers, suppliers, employees, shareholders, supervisory authorities, institutions).

The Code of Ethics establishes the rules of conduct that employees must observe in day-to-day operations in compliance with applicable laws and regulations in all Countries where the Bank operates.

[3] The following data include in 2016 the scope of Interbanca S.p.A., which joined the IFIS Group in December 2016.

The Code establishes reference standards and rules of conduct designed to reinforce corporate decision-making processes and guide the conduct of all employees, thus making it a tool for promoting "corporate business ethics".

Therefore, adopting and effectively implementing the Model and all the instruments associated with it improves the Bank's Corporate Governance, limiting the risk of committing offences as well as of damaging its image and reputation by ensuring a responsible and conscientious attitude towards all counterparties4.

Ensuring the Organisational Model and the Code of Ethics are effective requires promoting a "culture of control" among all employees and raising the awareness of all structures concerned. This is why the Group trains its staff on the content of the Organisational Model pursuant to Italian Legislative Decree 231/01 and the Code of Ethics.

Number and proportion of employees trained on the Organisational and Management Model pursuant to Italian Legislative Decree 231/01 and the Code of Ethics

		2015	2016
Total employees	**Num**	**704**	**1.313**
Total employees trained, of which:	**Num**	**239**	**766**
	%	**34%**	**58%**
- Senior managers	Num	2	36
	%	8%	57%
- Middle managers	Num	27	229
	%	17%	58%
- Clerical staff	Num	210	501
	%	40%	59%

Hours of training on the Organisational and Management Model pursuant to Italian Legislative Decree 231/01 and the Code of Ethics

		2015	2016
Total training hours, of which:	**hh**	**417**	**1.599**
- Senior managers	hh	3	84
- Middle managers	hh	29	495,5
- Clerical staff	hh	385	1.019,5

In addition, in accordance with the "Supervisory provisions for banks" - Circular no. 285 of 17 December 2013, Banca IFIS has activated an internal reporting system to allow the employees of the Parent Company or Subsidiaries to report actions or events that potentially breach the regulations (both external and internal) governing the company's operations.

The reports can be submitted using different channels[5] and are handled by the Internal Auditing Officer, who examines and investigates them based on the principles of impartiality, privacy, dignity of the employee and protection of personal data. After completing the investigation, the Internal Auditing Officer formally submits his or her assessment to the Chief Executive Officer and the General Manager (or the

[4] For more information on risk governance and the internal control system, see the Notes – Part E - Information on risks and risk management policies as well as the Report on Corporate Governance and Shareholding Structure (available at www.bancaifis.it).

[5] Employees can submit reports using a dedicated e-mail address, second-class post or internal mail, in person, or through an application available on the company's portal (IFIS4YOU) as well as the institutional website (www.bancaifis.it).

Chairman of the Board of Statutory Auditors in the event of potential incompatibilities), who will decide what corrective actions need to be carried out.

In December 2016, the Group updated its Reporting Policy to extend it also to Interbanca.

Environment and territory

Managing environmental impacts

The most significant direct environmental impacts of Banca IFIS's operations are the production of waste—mainly office waste (paper, empty toner cartridges, out-of-use equipment, etc.)—wastewater, the energy used for lighting and heating, and the emissions into the atmosphere. There are also additional impacts, such as the use and disposal of agrochemicals, associated with the maintenance of the Villa Fürstenberg garden—a 22-hectare green area that surrounds the company's historical headquarters (and the current head office) in Mestre, Venice.

As part of the implementation of the Organisational Model pursuant to Italian Legislative Decree 231/01 and in order to prevent environmental offences, Banca IFIS has prepared an “Integrated Safety and Environment Manual”. The Manual, approved by the Board of Directors and regularly updated, lists all procedures for managing environmental as well as health and safety impacts (in accordance with Italian Legislative Decree no. 152 of 3 April 2006). The Head Office is responsible for promoting the implementation of the Manual and regularly updating the Environmental Policy, while the Equipment and Safety/Environment Management Unit, which is part of the General Services Function, is responsible for ensuring environmental procedures are properly implemented.

The Manual, which includes the Group's Environmental Policy, is also the instrument the company uses to establish and inform all employees about the key principles and criteria for making decisions about protecting the environment. Banca IFIS endeavours to disseminate and consolidate a culture of environmental protection, raising awareness of environmental issues and promoting responsible practices among all employees. These are provided with adequate information and training, and they are required to report any deficiencies or failures to comply with applicable regulations in a timely manner.

The Group manages the impacts generated by its operations in accordance with the Integrated Manual and applicable laws.

Concerning the reduction in energy consumption, in 2016 the restructuring of the Florence office—housing the NPL (Non-Performing Loans) Area and the Fast Finance business area—was completed. The restructuring is environmentally friendly and will allow to reduce consumption through the energy generated with solar panels as well as the savings from Led lighting.

Banca IFIS and the community

The initiatives the Banca IFIS Group carries out with local communities show its willingness to serve companies by promoting a culture of entrepreneurship—including for non-profit purposes.

In addition, there are also charity projects that often directly involve employees. These refer to associations in the communities where the company operates: the Bank hosts initiatives and events for the public or the business community on its premises.

Here below are the main projects and initiatives carried out during 2016.

Support to entrepreneurship

Botteghe Digitali (Digital Workshops)

Botteghe Digitali is a project Banca IFIS developed with Stefano Micelli, a Professor at Venice's Cà Foscari University, and Marketing Arena. It seeks to help deserving companies—which are not necessarily Banca IFIS's customers—establish themselves on the market and boost their competitiveness while preserving the characteristics of the made-in-Italy brand that makes them special. www.botteghedigitali.it

New Craft Club

The New Craft Club is a community based on the principle of exchanging and discussing experiences and knowledge concerning the digitisation, information and presentation of the best Made in Italy companies. In 2016, many of them were featured in the New Craft show of the Triennale di Milano's 21st International Exhibition—an event Banca IFIS supported as exhibition partner.

The Club seeks to create an environment in which companies can discuss and learn about specialist issues associated with the needs or evolution of the market, and that could potentially serve as an observatory for the trends concerning the digitisation of craft businesses with the help of public officials, researchers, market participants, and consultants. (Go to http://www.newcraftclub.it

Study “The made in Italy meets the digital”

“The Made in Italy meets the digital” is an interactive study of the digitisation of craft businesses conducted by Fondazione Nord Est and supported by Banca IFIS.

The study sought to measure the penetration of certain digital manufacturing technologies—specifically, laser, 3D printing, robotics, e-commerce, and the web—among Italian businesses. 787 Made in Italy consumer companies operating in three sectors—housing, fashion, and jewellery—participated in the survey. http://madeinitaly.newcraftclub.it/

Study “Medium-sized Businesses Drive Growth”

In 2016, the former Interbanca Group supported the study—conducted by Professors Paolo Gubitta and Diego Campagnolo (University of Padua) with Doxa, which surveyed 300 executives and senior leaders—on mid-market companies, i.e. Italian businesses with a turnover between 5 and 250 million Euro.

In 2016, the study focused only on the Italian market and was carried out in partnership with

It emerged that Italian companies are still reluctant to use advanced financing options because of a cultural lag or the lack of specific competencies. The segment therefore represents a wide and untapped potential market for financial products such as factoring, leasing, and structured finance.

The CEO School

The CEO School programme, launched in April 2016, is an advanced training course created by Valore D and the former Interbanca Group inspired by the belief that greater gender diversity can help improve business results. It seeks to allow an increasing number of women to work in executive positions.

The programme is offered to 30 female top managers selected for a monthly training course that ends in February 2017.

Festival of Politics

In 2016, Banca IFIS supported Mestre's "Festival of Politics", which focuses on the main Italian and international political, economic and social issues. In September 2016, Banca IFIS CEO Giovanni Bossi attended the Festival and had a conversation with Dario Di Vico, a journalist for the newspaper Il Corriere della Sera, on the topic "Economic crisis and political splintering".

Donations and Sponsorships

Metti in Banca il tuo Cuore (Put your Heart in the Bank)

Banca IFIS has been working for several years now with Associazione Amici del Cuore, a non-profit organisation that promotes initiatives concerning preventive healthcare, secondary rehabilitation and healthcare education as well as supports research in cardiovascular diseases. The Bank has donated funds to the Association in 2014 and 2015 and conducted joint initiatives in 2016.

The Bank's employees participated in a preventive healthcare initiative in which they received a free electrocardiogram at the Head Office in Mestre (216 participants). The data collected was made available to the Association as a data base for research purposes. In addition, in 2016 Banca IFIS supported the World Heart Day, an event that promotes preventive healthcare organised by the Association in partnership with the Municipality of Venice.

Support to the ABIO Association

Banca IFIS decided to make the Christmas holidays an opportunity for charity by reserving part of the budget usually dedicated to company parties for a project in partnership with the ABIO (*Assistenza Bambini in Ospedale*, Aid for Hospitalised Children) Association of Mestre and Milan, which operates in the paediatric units of Italian hospitals. The Bank's donation allowed to buy toys and other goods to aid the recovery of children and their families. The initiative was also an opportunity for company volunteering: 102 employees (across Banca IFIS and the former Interbanca Group) contributed directly to the initiative, for instance by delivering the gifts at the hospital.

"Charity" team building for the CrediFamiglia Agent Network

In 2016, the annual macro-regional meeting of the NPL Area's CrediFamiglia Agent Network became a charity team building event. The initiative was held in Rome and saw teams of agents work with a street artist: the team was tasked with help 'their street artist' engage passers-by to persuade them to make a donation to the non-profit organisation Save The Children.

Economic value generated and distributed

In 20166, the Banca IFIS Group generated 920,6 million Euro in economic value. The breakdown of the generated economic value[7] represents the wealth the Group generated during the year and how this is reinvested in the Bank or distributed to the stakeholders with which the Group engages in its day-to-day operations.

Therefore, the analysis of the value generated and distributed shows in monetary terms the relationships between the Banking Group and the socio-economic system it engages with—and especially its main stakeholders:

- **employees** and **collaborators** received 93,4 million Euro, approximately 10% of the economic value generated. Besides salaries, contributions and post-employment benefits for employees, this amount includes also the fees paid to **debt collection agencies**;
- **suppliers** received nearly 74,1 million Euro, about 8% of the economic value generated, for the purchase of goods and the rendering of services;
- The **Italian State, Authorities and Institutions** received 58,7 million Euro, approximately 6% of the economic value generated, through direct and indirect taxes as well as income tax (for the portion concerning current taxes); this item also includes the contributions to Italy's Bank Resolution Fund and Interbank Deposit Protection Fund. in addition, **the Group participated in social and cultural initiatives within the Community**.
- **shareholders** and third parties received nearly 5% of the economic value generated Euro, totalling 43,8 million Euro. This was represented by the dividends paid;
- the rest, 650,1 million Euro, i.e. 71% of the economic value generated, remained with the company as amounts set aside (current and deferred taxes, depreciation and amortisation, and allocations to the provisions for risks and charges) for productive investments, in order to maintain efficiency and allow the company to grow.

The total economic value withheld totalled 650,1 million Euro, compared to 129,1 million Euro in December 2015: the significant increase was essentially attributable to the 623,6 million Euro gain on bargain purchase recognised in profit or loss following the acquisition of the former GE Capital Interbanca Group on 30 November 2016. This shows that the acquisition has significantly strengthened the financial position of the Banking Group, which will allow to support its growth in the long term.

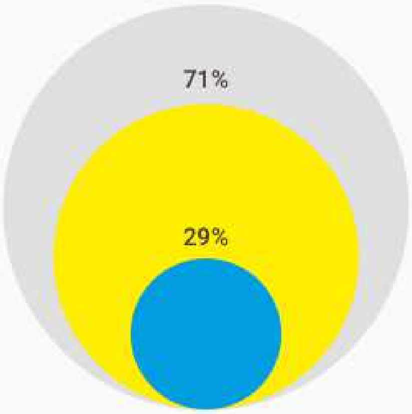
(in thousands of Euro)	2015	2016	2015 - %	2016 - %
TOTAL ECONOMIC VALUE GENERATED	**376.734,4**	**920.584**	**100%**	**100%**
TOTAL ECONOMIC VALUE DISTRIBUTED	**-247.620,6**	**-270.529**	**66%**	**29%**
SUPPLIERS	-55.444	-74.053	15%	8%
EMPLOYEES AND COLLABORATORS	-62.954	-93.402	17%	10%
SHAREHOLDERS AND THIRD PARTIES	-40.342	-43.813	11%	5%
ITALIAN STATE, AUTHORITIES AND INSTITUTIONS, COMMUNITY	-88.880,6	-58.675	24%	6%

[6] The data include in 2016 the scope of Interbanca S.p.A., which joined the IFIS Group in December 2016.

[7] The breakdown is made by restating the items of the income statement used in the Consolidated Financial Statements. The statement below was therefore prepared based on the 2016 and 2015 Consolidated Income Statements and in accordance with the relevant guidelines issued by the Italian Banking Association.

TOTAL ECONOMIC VALUE WITHHELD	-129.113,6	-650.055	34%	71%

ECONOMIC VALUE GENERATED AND DISTRIBUTED

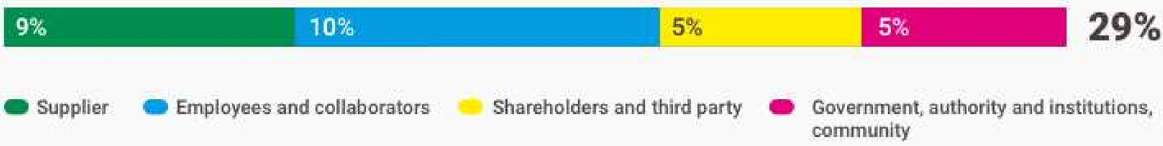


Total economic value generated: 920,584

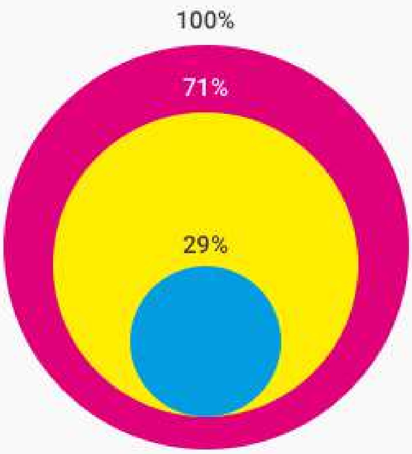
Total economic value held: 649,743

Total economical value distributed: 270,840.6

Economical value distributed



Total economic value generated and distributed 2016

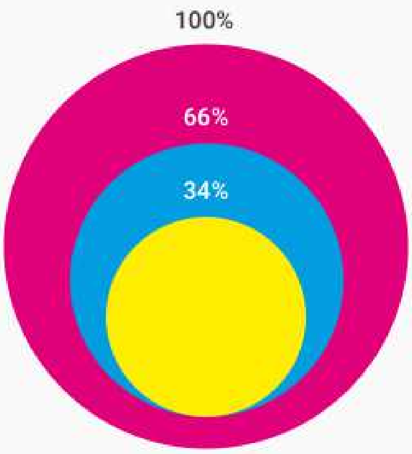


Total economic value generated: 920,584

Total economic value held: 649,743

Total economical value distributed: 270,840.6

Total economic value generated and distributed 2015



Total economic value generated: 376,734.4

Total economic value held: 129,113.6

Total economical value distributed: 247,620.6

Directors' Report

Introductory notes on how to read the data

Here are the events that should be considered when comparing the results to previous periods:

- **Acquisition of the former GE Capital Interbanca Group**: on 30 November 2016, after obtaining the authorisations of the competent Supervisory Authorities, Banca IFIS acquired 99,99% of the former GE Capital Interbanca S.p.A. Following the acquisition, in accordance with IASs/IFRSs, Banca IFIS conducted a Purchase Price Allocation, which consists in allocating the cost of the business combination, recognising the assets acquired, liabilities assumed, and contingent liabilities at their fair values at the acquisition date. This process resulted in a 623,6 million Euro gain on bargain purchase, which was recognised in profit or loss under other operating income. The details of the transaction are presented in part G of the Notes to the Consolidated Financial Statements.

  Following the acquisition of the former GE Capital Interbanca Group, Banca IFIS has identified the new Corporate Banking and Leasing sectors. For more details, see Contribution of business segments in this Directors' Report.
- **Rebalancing of the government bond portfolio**: in April 2015, the Bank rebalanced part of the Italian government bond portfolio, which resulted in a 124,5 million Euro gain on the sale of available for sale financial assets in the first half of 2015.
- **Presentation of the data in the Directors' Report**: in light of the mentioned significant events, and to make the 2016 and 2015 results more comparable, the Group financial and income results include a comparison of 2016 with the prior year excluding all effects attributable to the acquisition of the former GE Capital Interbanca Group (the data are presented in a column named "normalised"), as if the business combination never took place. In addition, the section "Normalised Highlights" shows the 2016 highlights normalised for the mentioned acquisition, comparing them with the results for the year 2015 excluding the effect of the gain on the sale of government bonds.
- **New model to estimate the cash flows of the acquired receivables due from Italy's NHS**: during 2016, the Bank implemented a new model to estimate the cash flows of the acquired receivables due from Italy's National Health Service. Specifically, the Bank estimates the interest on arrears considered recoverable from the acquisition date based on historical evidence. Banca IFIS estimates cash flows in accordance with the provisions of the joint Bank of Italy/Consob/Ivass document no.7 of 09 November 2016 "Accounting of interest on arrears as per Italian Legislative Decree 231/2002 on performing loans purchased outright". The change in estimated cash flows, discounted using the original IRR of the positions, resulted in a 15,8 million Euro change in amortised cost recognised in profit or loss under interest income.

Highlights

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2016	31.12.2015	ABSOLUTE	%
Available for sale financial assets	374.229	3.221.533	(2.847.304)	(88,4)%
Due from banks	1.393.358	95.352	1.298.006	1361,3%
Loans to customers	5.928.212	3.437.136	2.491.076	72,5%
Total assets	8.699.145	6.957.720	1.741.425	25,0%
Due to banks	503.964	662.985	(159.021)	(24,0)%
Due to customers	5.045.136	5.487.476	(442.340)	(8,1)%
Equity	1.218.783	573.467	645.316	112,5%

RECLASSIFIED CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (1) (in thousands of Euro)	YEAR		CHANGE	
	2016	2015	ABSOLUTE	%
Net banking income (1)	**325.971**	**404.345**	**(78.374)**	**(19,4)%**
Net value adjustments on receivables and other financial assets (1)	(26.605)	(30.637)	4.032	(13,2)%
Net profit (loss) from financial activities	**299.366**	**373.708**	**(74.342)**	**(19,9)%**
Operating costs *net of the gain on bargain purchase*	(202.475)	(128.119)	(74.356)	58,0%
Bargain	623.635	-	623.635	0,0%
Group gross profit for the period	720.526	245.589	474.937	193,4%
Group net profit for the period	**687.985**	**161.966**	**526.019**	**324,8%**

1) Net value adjustments in the NPL Area, totalling 32,6 million Euro at 31 December 2016 compared to 3,6 million Euro at 31 December 2015, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net value adjustments represent an integral part of the return on the investment.

RECLASSIFIED QUARTERLY CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (1) (in thousands of Euro)	4th QUARTER		CHANGE	
	2016	2015	ABSOLUTE	%
Net banking income (1)	**88.282**	**76.208**	**12.074**	**15,8%**
Net value adjustments on receivables and other financial assets (1)	(7.113)	(7.505)	392	(5,2)%
Net profit (loss) from financial activities	**81.169**	**68.703**	**12.466**	**18,1%**
Operating costs	539.858	(47.335)	587.193	(1240,5)%
Group gross profit for the period	621.027	21.368	599.659	2806,3%
Group net profit for the period	**621.716**	**13.161**	**608.555**	**4623,9%**

1) Net value adjustments in the NPL Area, totalling 9,0 million Euro in the 4th quarter of 2016 and 0,6 million Euro in the 4th quarter of 2015, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net value adjustments represent an integral part of the return on the investment.

Normalised Highlights

Here below are the normalised highlights:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2016 NORMALISED	31.12.2015 NORMALISED	ABSOLUTE	%
Available for sale financial assets	325.050	3.221.533	(2.896.483)	(89,9)%
Due from banks	1.194.420	95.352	1.099.068	1152,6%
Loans to customers	3.638.176	3.437.136	201.040	5,8%
Total assets	5.461.443	6.957.720	(1.496.277)	(21,5)%
Due to banks	509.066	662.985	(153.919)	(23,2)%
Due to customers	4.095.416	5.487.476	(1.392.060)	(25,4)%
Equity	619.921	573.467	46.454	8,1%

RECLASSIFIED CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (1) (in thousands of Euro)	YEAR		CHANGE	
	2016 NORMALISED	2015 NORMALISED	ABSOLUTE	%
Net banking income (1)	**331.962**	**279.845**	**52.117**	**18,6%**
Net value adjustments on receivables and other financial assets (1)	(25.023)	(30.637)	5.614	(18,3)%
Net profit (loss) from financial activities	**306.939**	**249.208**	**57.731**	**23,2%**
Operating costs	(172.161)	(128.119)	(44.042)	34,4%
Group gross profit for the period	134.778	121.089	13.689	11,3%
Group net profit for the period	**89.795**	**78.638**	**11.157**	**14,2%**

1) Net value adjustments in the NPL Area, totalling 32,6 million Euro at 31 December 2016 compared to 3,6 million Euro at 31 December 2015, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net value adjustments represent an integral part of the return on the investment.

RECLASSIFIED QUARTERLY CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (1) (in thousands of Euro)	4th QUARTER		CHANGE	
	2016 NORMALISED	2015 NORMALISED	ABSOLUTE	%
Net banking income (1)	**94.273**	**76.208**	**18.065**	**23,7%**
Net value adjustments on receivables and other financial assets (1)	(5.531)	(7.505)	1.974	(26,3)%
Net profit (loss) from financial activities	**88.742**	**68.703**	**20.039**	**29,2%**
Operating costs	(53.463)	(47.335)	(6.128)	12,9%
Group gross profit for the period	35.279	21.368	13.911	65,1%
Group net profit for the period	**23.526**	**13.161**	**10.365**	**78,8%**

1) Net value adjustments in the NPL Area, totalling 9,0 million Euro in the 4th quarter of 2016 and 0,6 million Euro in the 4th quarter of 2015, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net value adjustments represent an integral part of the return on the investment.

Group KPIs

RECLASSIFIED[1] GROUP KPIs	YEAR		CHANGE
	2016	2015	%
ROE	98,5%	30,4%	68,1%
ROA	8,3%	3,5%	4,8%
ROCA	8,5%	1,5%	7,0%
Total Own Funds Capital Ratio	15,3%	14,9%[2]	0,4%
Common Equity Tier 1 Ratio	14,7%	14,2%[2]	0,5%
Number of company shares (in thousands)	53.811	53.811	0,0%
Number of shares outstanding at period end[3] (in thousands)	53.431	53.072	0,7%
Book per share	22,81	10,81	111,0%
EPS	12,94	3,05	324,3%
Dividend per share	0,82	0,76	7,9%
Payout ratio	6,4%	24,9%	(18,5)%

(1) Net value adjustments on receivables of the NPL Area, totalling 32,6 million Euro at 31 December 2016 compared to 3,6 million Euro at 31 December 2015, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net value adjustments represent an integral part of the return on the investment.
(2) Total consolidated own funds (amounting to 486.809 thousands Euro) differ from the amount reported in the consolidated financial statements for the year ended 31 December 2015 (501.809 thousands Euro) due to the 15 million Euro dividend payout approved by the Shareholders' Meeting of the parent company La Scogliera S.p.A. on 23 March 2016. The consolidated supervisory reports at 31 December 2015, as well as the relevant capital adequacy ratios, had already been adjusted at the end of March 2016 to account for said dividend payout. The data on consolidated Own Funds and capital adequacy ratios account for the impact of said distribution.
(3) Outstanding shares are net of treasury shares held in the portfolio.

NORMALISED RECLASSIFIED[1] GROUP KPIs	YEAR		CHANGE
	2016	2015	%
ROE	15,5%	16,3%	(0,8)%
ROA	2,5%	1,7%	0,8%
ROCA	2,4%	1,5%	0,9%
Cost/Income ratio	51,9%	45,8%	6,1%
Book per share	11,60	9,24	25,5%
EPS	1,69	1,48	14,2%
Dividend per share	0,82	0,76	7,9%
Payout ratio	48,8%	51,3%	(2,5)%

(1) Net value adjustments on receivables of the NPL Area, totalling 32,6 million Euro at 31 December 2016 compared to 3,6 million Euro at 31 December 2015, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net value adjustments represent an integral part of the return on the investment.

Reclassified results by business segment

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Available for sale financial assets							
Amounts at 31.12.2016	-	-	-	-	-	374.229	374.229
Amounts at 31.12.2015	-	-	-	-	-	3.221.533	3.221.533
% Change	-	-	-	-	-	(88,4)%	(88,4)%
Due from banks							
Amounts at 31.12.2016	-	-	-	-	-	1.393.358	1.393.358
Amounts at 31.12.2015	-	-	-	-	-	95.352	95.352
% Change	-	-	-	-	-	1361,3%	1361,3%
Loans to customers							
Amounts at 31.12.2016	3.092.488	905.682	1.235.638	562.146	124.697	7.561	5.928.212
Amounts at 31.12.2015	2.848.124	n.a.	n.a.	354.352	130.663	103.997	3.437.136
% Change	8,6%	n.a.	n.a.	58,6%	(4,6)%	(92,7)%	72,5%
Due to banks							
Amounts at 31.12.2016	-	-	-	-	-	503.964	503.964
Amounts at 31.12.2015	-	-	-	-	-	662.985	662.985
% Change	-	-	-	-	-	(24,0)%	(24,0)%
Due to customers							
Amounts at 31.12.2016	-	-	-	-	-	5.045.136	5.045.136
Amounts at 31.12.2015	-	-	-	-	-	5.487.476	5.487.476
% Change	-	-	-	-	-	(8,1)%	(8,1)%

RECLASSIFIED DATA ON THE INCOME STATEMENT (1) (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income							
Amounts at 31.12.2016	174.433	2.952	(1.172)	154.740	13.990	(18.972)	**325.971**
Amounts at 31.12.2015	*158.671*	*n.a.*	*n.a.*	*52.687*	*20.335*	*172.652*	***404.345***
% Change	*9,9%*	*n.a.*	*n.a.*	*193,7%*	*(31,2)%*	*(111,0)%*	***(19,4)%***
Net profit (loss) from financial activities							
Amounts at 31.12.2016	154.128	2.889	(2.682)	154.740	13.620	(23.329)	**299.366**
Amounts at 31.12.2015	*137.423*	*n.a.*	*n.a.*	*52.687*	*19.923*	*163.675*	***373.708***
% Change	*12,2%*	*n.a.*	*n.a.*	*193,7%*	*(31,6)%*	*(114,3)%*	***(19,9)%***

(1) Net value adjustments on receivables of the NPL Area, totalling 32,6 million Euro at 31 December 2016 compared to 3,6 million Euro at 31 December 2015, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net value adjustments represent an integral part of the return on the investment.

RECLASSIFIED QUARTERLY DATA ON THE INCOME STATEMENT (1) (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income							
Fourth quarter 2016	53.142	2.952	(1.172)	42.780	3.126	(12.546)	**88.282**
Fourth quarter 2015	*39.728*	*n.a.*	*n.a.*	*21.818*	*8.828*	*5.834*	***76.208***
% Change	*33,8%*	*n.a.*	*n.a.*	*96,1%*	*(64,6)%*	*(315,0)%*	***15,8%***
Net profit (loss) from financial activities							
Fourth quarter 2016	48.061	2.889	(2.682)	42.780	3.025	(12.904)	**81.169**
Fourth quarter 2015	*33.237*	*n.a.*	*n.a.*	*21.818*	*8.542*	*5.106*	***68.703***
% Change	*44,6%*	*n.a.*	*n.a.*	*96,1%*	*(64,6)%*	*(352,7)%*	***18,1%***

(1) Net value adjustments in the NPL Area, totalling 9,0 million Euro in the 4th quarter of 2016 and 0,6 million Euro in the 4th quarter of 2015, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net value adjustments represent an integral part of the return on the investment.

SEGMENT KPIs (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES
Turnover						
Amounts at 31.12.2016	10.549.881	n.a.	n.a.	n.a.	n.a.	n.a.
Amounts at 31.12.2015	*10.126.397*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
% Change	*4,2%*	-	-	-	-	-
Nominal amount of receivables managed						
Amounts at 31.12.2016	3.880.835	1.739.175	1.273.933	9.660.196	172.145	n.a.
Amounts at 31.12.2015	*3.576.982*	*n.a.*	*n.a.*	*8.161.005*	*190.553*	*n.a.*
% Change	*8,5%*	-	-	*18,4%*	*(9,7)%*	-
Cost of credit quality						
Amounts at 31.12.2016	0,8%	0,1%	1,5%	n.a.	n.a.	n.a.
Amounts at 31.12.2015	*0,9%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
% Change	*(0,1)%*	*n.a.*	*n.a.*	-	-	-
Net bad loans/Loans to customers						
Amounts at 31.12.2016	1,0%	3,0%	0,5%	57,0%	0,0%	n.a.
Amounts at 31.12.2015	*1,1%*	*n.a.*	*n.a.*	*45,0%*	*0,0%*	*n.a.*
% Change	*(0,1)%*	*n.a.*	*n.a.*	*12,1%*	*0,0%*	-
Net bad loans/Equity						
Amounts at 31.12.2016	2,6%	2,2%	0,5%	n.a.	n.a.	n.a.
Amounts at 31.12.2015	*5,4%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
% Change	*(2,8)%*	*n.a.*	*n.a.*	-	-	-
Coverage ratio on gross bad loans						
Amounts at 31.12.2016	88,5%	94,0%	92,2%	n.a.	n.a.	n.a.
Amounts at 31.12.2015	*87,9%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
% Change	*0,7%*	*n.a.*	*n.a.*	-	-	-
Non-performing exposures/Loans to customers						
Amounts at 31.12.2016	6,5%	19,0%	3,0%	n.a.	n.a.	n.a.
Amounts at 31.12.2015	*4,5%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
% Change	*2,0%*	*n.a.*	*n.a.*	-	-	-
Net non-performing loans/Equity						
Amounts at 31.12.2016	16,5%	14,1%	3,0%	n.a.	n.a.	n.a.
Amounts at 31.12.2015	*22,4%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
% Change	*(6,0)%*	*n.a.*	*n.a.*	-	-	-
RWA						
Amounts at 31.12.2016	2.348.131	929.337	875.153	562.146	50.004	263.512[4]
Amounts at 31.12.2015	*1.970.886*	*n.a.*	*n.a.*	*354.352*	*41.614*	*25.256*
% Change	*19,1%*	*n.a.*	*n.a.*	*58,6%*	*20,2%*	*943,4%*

(1) Gross flow of the receivables sold by the customers in a specific period of time.
(2) Risk Weighted Assets; the amount refers exclusively to the financial items reported in the segments.
(3) Data restated after initial publication.
(4) The Governance and Services sector's RWAs include in 2016 the investment in IFIS Rental Services, a non-financial company consolidated using the equity method and that is not part of the Banking Group for supervisory purposes.

Reclassified Quarterly Evolution

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2016				YEAR 2015			
	31.12	30.09	30.06	31.03	31.12	30.09	30.06	31.03
ASSETS								
Available for sale financial assets	374.229	1.026.744	1.027.770	1.066.413	3.221.533	3.677.850	3.803.216	5.069.781
Due from banks	1.393.358	454.170	153.877	114.691	95.352	246.991	114.843	115.697
Loans to customers	5.928.212	3.303.322	3.355.998	3.307.793	3.437.136	3.176.172	3.152.145	2.921.902
Property, plant and equipment	110.348	62.291	56.729	53.792	52.163	52.137	51.509	51.329
Intangible assets	14.981	10.816	8.929	7.391	7.170	7.031	6.779	6.772
Other assets	878.017	138.256	139.895	112.110	144.366	84.507	92.902	77.104
Total assets	**8.699.145**	**4.995.599**	**4.743.198**	**4.662.190**	**6.957.720**	**7.244.688**	**7.221.394**	**8.242.585**

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2016				YEAR 2015			
	31.12	30.09	30.06	31.03	31.12	30.09	30.06	31.03
LIABILITIES								
Due to banks	503.964	56.788	43.587	182.568	662.985	537.898	457.384	200.953
Due to customers	5.045.136	4.138.865	3.928.261	3.722.501	5.487.476	5.900.458	6.037.552	7.241.379
Outstanding securities	1.488.556	-	-	-	-	-	-	-
Post-employment benefits	7.660	1.554	1.545	1.510	1.453	1.388	1.407	1.641
Tax liabilities	24.925	15.116	16.180	25.118	25.549	23.904	18.207	67.692
Other liabilities	410.121	196.628	191.428	180.250	206.790	224.028	182.578	159.042
Equity:	1.218.783	586.648	562.197	550.243	573.467	557.012	524.266	571.878
- Share capital, share premiums and reserves	*530.838*	*520.379*	*523.077*	*528.198*	*411.501*	*408.207*	*393.487*	*545.649*
- Profit for the period	*687.945*	*66.269*	*39.120*	*22.045*	*161.966*	*148.805*	*130.779*	*26.229*
Total liabilities and equity	**8.699.145**	**4.995.599**	**4.743.198**	**4.662.190**	**6.957.720**	**7.244.688**	**7.221.394**	**8.242.585**

RECLASSIFIED CONSOLIDATED INCOME STATEMENT (1) QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2016				YEAR 2015			
	4th Q.	3rd Q.	2nd Q.	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net interest income	**78.510**	**52.988**	**55.395**	**57.707**	**45.312**	**48.163**	**53.432**	**58.106**
Net commission income	**1.060**	**13.087**	**13.316**	**13.648**	**14.824**	**14.712**	**14.878**	**14.369**
Net result from trading	4	(374)	(86)	(246)	(55)	(179)	36	120
Gain/loss on sale or buyback of:	17.753	21.065	5.694	5.495	16.127	-	124.500	-
loans and receivables	17.770	21.065	5.694	-	14.948	-	-	-
available for sale financial assets	(17)	-	-	5.495	1.179	-	124.500	-
Net banking income	**97.327**	**86.766**	**74.319**	**76.604**	**76.208**	**62.696**	**192.846**	**72.595**
Net impairment losses/reversal on	(16.158)	(3.731)	(7.496)	(8.265)	(7.505)	(5.463)	(10.183)	(7.486)
loans and receivables	(15.806)	(3.731)	(6.449)	(5.313)	(6.777)	(1.447)	(7.969)	(5.467)
available for sale financial assets	(357)	-	(1.047)	(2.952)	(728)	(4.016)	(2.214)	(2.019)
other financial transactions	5	-	-	-	-	-	-	-
Net profit (loss) from financial activities	**81.169**	**83.035**	**66.823**	**68.339**	**68.703**	**57.233**	**182.663**	**65.109**
Personnel expenses	(23.959)	(14.324)	(14.187)	(13.408)	(12.266)	(12.394)	(12.165)	(11.517)
Other administrative expenses	(55.775)	(24.029)	(28.051)	(18.421)	(35.419)	(15.956)	(11.411)	(16.042)
Net allocations to provisions for risks and charges	1.611	(1.827)	2.157	(3.790)	13	(160)	397	(479)
Net value adjustments on property, plant and equipment and intangible assets	(2.742)	(1.306)	(1.069)	(938)	(1.045)	(942)	(927)	(832)
Other operating income/expenses	620.723	(415)	162	748	1.382	478	(2.141)	3.307
Operating costs	**539.858**	**(41.901)**	**(40.988)**	**(35.809)**	**(47.335)**	**(28.974)**	**(26.247)**	**(25.563)**
Pre-tax profit from continuing operations	**621.027**	**41.134**	**25.835**	**32.530**	**21.368**	**28.259**	**156.416**	**39.546**
Income tax expense for the period	689	(13.985)	(8.760)	(10.485)	(8.207)	(10.233)	(51.866)	(13.317)
Profit for the period	**621.716**	**27.149**	**17.075**	**22.045**	**13.161**	**18.026**	**104.550**	**26.229**
Non-controlling interests	40	-	-	-	-	-	-	-
Parent Company profit for the year	**621.676**	**27.149**	**17.075**	**22.045**	**13.161**	**18.026**	**104.550**	**26.229**

(1) Net value adjustments on NPL Area receivables were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net value adjustments represent an integral part of the return on the investment.

INCOME STATEMENT DATA BY SEGMENT: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2016				YEAR 2015			
	4th Q.	3rd Q.	2nd Q.	1st Q.	4th Q.	3rd Q.	2nd Q.	1st Q.
Net banking income	**88.282**	**86.766**	**74.319**	**76.604**	**76.208**	**62.696**	**192.846**	**72.595**
Trade Receivables	53.142	39.910	40.065	41.316	39.728	41.668	37.941	39.334
Corporate Banking	2.952	-	-	-	-	-	-	-
Leasing	(1.172)	-	-	-	-	-	-	-
NPL Area	42.780	50.822	35.198	25.940	21.818	10.676	11.334	8.859
Tax Receivables	3.126	2.838	3.873	4.153	8.828	3.984	3.621	3.902
Governance and Services	(12.546)	(6.804)	(4.817)	5.195	5.834	6.368	139.950	20.500
Net profit from financial activities	**81.169**	**83.035**	**66.823**	**68.339**	**68.703**	**57.233**	**182.663**	**65.109**
Trade Receivables	48.061	36.261	33.803	36.003	33.237	40.361	30.016	33.809
Corporate Banking	2.889	-	-	-	-	-	-	-
Leasing	(2.682)	-	-	-	-	-	-	-
NPL Area	42.780	50.822	35.198	25.940	21.818	10.676	11.334	8.859
Tax Receivables	3.025	2.756	3.686	4.153	8.542	3.844	3.577	3.960
Governance and Services	(12.904)	(6.804)	(5.864)	2.243	5.106	2.352	137.736	18.481

(1) Net value adjustments on NPL Area receivables were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net value adjustments represent an integral part of the return on the investment.

Reclassified Group Historical Data[1]

The following table shows the main indicators and performances recorded by the Group during the last 5 years.

HISTORICAL DATA (in thousands of Euro)	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
Available for sale financial assets	374.229	3.221.533	243.325	2.529.179	1.974.591
Held to maturity financial assets	-	-	4.827.363	5.818.019	3.120.428
Loans to customers	5.928.212	3.437.136	2.814.330	2.296.933	2.292.314
Due to banks	503.964	662.985	2.258.967	6.665.847	557.323
Due to customers	5.045.136	5.487.476	5.483.474	4.178.276	7.119.008
Equity	1.218.783	573.467	437.850	380.323	309.017
Net banking income	325.971	407.958	284.141	264.196	244.917
Net profit from financial activities	299.366	373.708	249.631	219.609	191.166
Group net profit	687.945	161.966	95.876	84.841	78.076
KPI :					
ROE	98,5%	30,4%	23,5%	24,8%	29,9%
ROA	8,3%	3,5%	1,7%	1,3%	1,5%
ROCA	8,5%	1,5%	1,3%	0,6%	1,0%
Total own funds Capital Ratio [2]	98,5%	15,4%	14,2%	13,5%	12,7%
Common Equity Tier 1 Ratio [2]	8,3%	14,7%	13,9%	13,7%	12,9%
Number of shares outstanding at period end[3] (in thousands)	53.811	53.072	52.924	52.728	53.551
Book per share	22,81	10,81	8,27	7,21	5,77
EPS	12,94	3,05	1,81	1,61	1,46
Dividend per share	0,82	0,76	0,66	0,57	0,37
Payout ratio	6,4%	24,9%	36,4%	35,4%	25,4%

(1) Net value adjustments on receivables of the NPL Area, totalling 32,6 million Euro at 31 December 2016 compared to 3,6 million Euro at 31 December 2015, were reclassified to Interest receivable and similar income to present more fairly this particular business, for which net value adjustments represent an integral part of the return on the investment.
(2) The new set of harmonised regulations for banks and investment firms included in EU Regulation no. 575/2013 (CRR) and in Directive 2013/36/EU (CRD IV) is applicable as from 1 January 2014. Data for periods up until 30 September 2013 were recognised according to previous regulations (Basel 2). The Solvency ratio and the Core Tier 1 have been presented under Total Own Funds Ratio and Common Equity Tier 1 Ratio, respectively.
(3) Outstanding shares are net of treasury shares held in the portfolio.

Results' presentation

Consolidated Highlights (2016 VS 2015)

KEY DATA HIGHLIGHTS

Net banking income — 19.4%

326.0 in 2016 — **404.3** in 2015

(+16.5% LFL Banca IFIS old perimeter)

Net results of financial operations — 19.9%

299.4 in 2016 — **373.7** in 2015

(+20.1 excl. 124.5 mln euro plusvalue from govvies sale in April 2015)

Net profit — +324.7%

687.9 in 2016 — **162.0** in 2015

Total assets — +21.5%

8,699.1 in 2016 — **6,957.7** in 2015

Equity — +8.1%

1,218.8 in 2016 — **573.5** in 2015

Due to customers — -8.1%

5,045.1 in 2016 — **5,487.5** in 2015

ANNUAL SHARE PRICE

Impact of regulatory changes

Here below are the regulatory changes introduced in 2016 the impacting Banca IFIS Group:

- Issue of the joint Bank of Italy/Consob/Ivass document no. 7 of 9 November 2016 "Accounting of interest on arrears as per Italian Legislative Decree 231/2002 on performing loans purchased outright", which is consistent with the new model to estimate the cash flows associated with the receivables of the Pharma BU implemented during 2016.
- Tax aspects: among the latest regulations on tax matters, the following impacted the determination of the Banca IFIS Group's income tax expense the most. In particular:
    - Italian Legislative Decree No. 83 of 27 June 2015, art. 16, para. 1: this provision has changed the rules for deducting bad debt and impairment losses. Effective from the annual period ending 31 December 2016, banks will be able to fully deduct credit losses in the first year they are accrued. This provision also established that all amounts in excess that were not deducted up to the tax year 2015 must be claimed as a reduction to taxable income (with diversified tax rates) over the following ten tax years starting from 2016. This regulatory change does not impact the Group's effective tax rate, but it does affect the current tax expense.
    - Italian Legislative Decree No. 59 of 3 May 2016, art. 11: it introduced the option for the recipients of the provisions in Italian Legislative Decree 225/2010 (banks and financial intermediaries) to continue applying the laws in force concerning the conversion of qualified deferred tax assets in tax credits, provided they pay an annual fee equal to 1,5% of the qualified deferred tax assets recognised and adjusted in accordance with said Legislative Decree. The exercise of the option is irrevocable, and the payment (if owed) must be made by the due date for paying income tax.
    - Italian Law no. 208 of 28 December 2015 ("2016 Budget Law"): it introduced the so-called "Super Depreciation" as a tax relief aiming to promote investments in new capital goods acquired between 15 October 2015 and 31 December 2016. This consists in an additional deduction equal to 40% of deductible depreciation charges.

Contribution of business segments

The organisational structure

The model for segment reporting is in line with the new organisational structure used by the Head Office to analyse Group results, which, following the acquisition of the former GE Capital Interbanca Group, now includes two new sectors: Corporate Banking and Leasing. In addition, since the acquisition date, the Trade Receivables sector has been benefiting from the contribution of IFIS Factoring.
Therefore, the organisational structure consists of the following segments: Trade receivables, Corporate banking, Leasing, NPL Area, Tax receivables, Governance and Services.
The Governance and Services segment manages the Group's financial resources and allocates funding costs to operating segments through the Group's internal transfer rate system.
Here below are the results achieved in 2016 by the various business segments, which will be analysed in the sections dedicated to the individual sectors.

INCOME STATEMENT DATA (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income							
Amounts at 31.12.2016	174.433	2.952	(1.172)	187.368	13.990	(18.972)	**358.599**
Amounts at 31.12.2015	*158.671*	*n.a.*	*n.a.*	*56.300*	*20.335*	*172.652*	***407.958***
% Change	*9,9%*	*n.a.*	*n.a.*	*232,8%*	*(31,2)%*	*(111,0)%*	***(12,1)%***
Net profit (loss) from financial activities							
Amounts at 31.12.2016	154.128	2.889	(2.682)	154.740	13.620	(23.329)	**299.366**
Amounts at 31.12.2015	*137.423*	*n.a.*	*n.a.*	*52.687*	*19.923*	*163.675*	***373.708***
% Change	*12,2%*	*n.a.*	*n.a.*	*193,7%*	*(31,6)%*	*(114,3)%*	***(19,9)%***

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income							
Fourth quarter 2016	53.142	2.952	(1.172)	51.825	3.126	(12.546)	**97.327**
Fourth quarter 2015	*39.728*	*n.a.*	*n.a.*	*22.402*	*8.828*	*5.834*	***76.792***
% Change	*33,8%*	*n.a.*	*n.a.*	*131,3%*	*(64,6)%*	*(315,0)%*	***26,7%***
Net profit (loss) from financial activities							
Fourth quarter 2016	48.061	2.889	(2.682)	42.780	3.025	(12.904)	**81.169**
Fourth quarter 2015	*33.237*	*n.a.*	*n.a.*	*21.818*	*8.542*	*5.106*	***68.703***
% Change	*44,6%*	*n.a.*	*n.a.*	*96,1%*	*(64,6)%*	*(352,7)%*	***18,1%***

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Available for sale financial assets							
Amounts at 31.12.2016	-	-	-	-	-	374.229	374.229
Amounts at 31.12.2015	-	-	-	-	-	3.221.533	3.221.533
% Change	-	-	-	-	-	(88,4)%	(88,4)%
Due from banks							
Amounts at 31.12.2016	-	-	-	-	-	1.393.358	1.393.358
Amounts at 31.12.2015	-	-	-	-	-	95.352	95.352
% Change	-	-	-	-	-	1361,3%	1361,3%
Loans to customers							
Amounts at 31.12.2016	3.092.488	905.682	1.235.638	562.146	124.697	7.561	5.928.212
Amounts at 31.12.2015	2.848.124	n.a.	n.a.	354.352	130.663	103.997	3.437.136
% Change	8,6%	n.a.	n.a.	58,6%	(4,6)%	(92,7)%	72,5%
Due to banks							
Amounts at 31.12.2016	-	-	-	-	-	503.964	503.964
Amounts at 31.12.2015	-	-	-	-	-	662.985	662.985
% Change	-	-	-	-	-	(24,0)%	(24,0)%
Due to customers							
Amounts at 31.12.2016	-	-	-	-	-	5.045.136	5.045.136
Amounts at 31.12.2015	-	-	-	-	-	5.487.476	5.487.476
% Change	-	-	-	-	-	(8,1)%	(8,1)%

SEGMENT KPIs (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES
Turnover						
Amounts at 31.12.2016	10.549.881	n.a.	n.a.	n.a.	n.a.	n.a.
Amounts at 31.12.2015	*10.126.397*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
% Change	*4,2%*	-	-	-	-	-
Nominal amount of receivables managed						
Amounts at 31.12.2016	3.880.835	1.739.175	1.273.933	9.660.196	172.145	n.a.
Amounts at 31.12.2015	*3.576.982*	*n.a.*	*n.a.*	*8.161.005*	*190.553*	*n.a.*
% Change	*8,5%*	-	-	*18,4%*	*(9,7)%*	-
Cost of credit quality						
Amounts at 31.12.2016	0,8%	0,1%	1,5%	n.a.	n.a.	n.a.
Amounts at 31.12.2015	*0,9%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
% Change	*(0,1)%*	*n.a.*	*n.a.*	-	-	-
Net bad loans/Loans to customers						
Amounts at 31.12.2016	1,0%	3,0%	0,5%	57,0%	0,0%	n.a.
Amounts at 31.12.2015	*1,1%*	*n.a.*	*n.a.*	*45,0%*	*0,0%*	*n.a.*
% Change	*(0,1)%*	*n.a.*	*n.a.*	*12,1%*	*0,0%*	-
Net bad loans/Equity						
Amounts at 31.12.2016	2,6%	2,2%	0,5%	n.a.	n.a.	n.a.
Amounts at 31.12.2015	*5,4%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
% Change	*(2,8)%*	*n.a.*	*n.a.*	-	-	-
Coverage ratio on gross bad loans						
Amounts at 31.12.2016	88,5%	94,0%	92,2%	n.a.	n.a.	n.a.
Amounts at 31.12.2015	*87,9%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
% Change	*0,7%*	*n.a.*	*n.a.*	-	-	-
Non-performing exposures/Loans to customers						
Amounts at 31.12.2016	6,5%	19,0%	3,0%	n.a.	n.a.	n.a.
Amounts at 31.12.2015	*4,5%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
% Change	*2,0%*	*n.a.*	*n.a.*	-	-	-
Net non-performing loans/Equity						
Amounts at 31.12.2016	16,5%	14,1%	3,0%	n.a.	n.a.	n.a.
Amounts at 31.12.2015	*22,4%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
% Change	*(6,0)%*	*n.a.*	*n.a.*	-	-	-
RWA						
Amounts at 31.12.2016	2.348.131	929.337	875.153	562.146	50.004	263.512(4)
Amounts at 31.12.2015	*1.970.886*	*n.a.*	*n.a.*	*354.352*	*41.614*	*25.256*
% Change	*19,1%*	*n.a.*	*n.a.*	*58,6%*	*20,2%*	*943,4%*

(1) Gross flow of the receivables sold by the customers in a specific period of time.
(2) Risk Weighted Assets; the amount refers exclusively to the financial items reported in the segments.
(3) Data restated after initial publication.
(4) The Governance and Services sector's RWAs include in 2016 the investment in IFIS Rental Services, a non-financial company consolidated using the equity method and that is not part of the Banking Group for supervisory purposes.

Trade receivables

This segment includes the following business areas:

• Crediti Commerciali Italia and Crediti Commerciali International, dedicated to supporting the trade receivables of SMEs operating in the domestic market as well as companies growing abroad or based abroad and working with Italian customers; this area includes the operations carried out in Poland by the investee IFIS Finance's S.p. Zo.o.; these business areas operate under the Banca IFIS Impresa brand; Banca IFIS Pharma and Pharmacies, operating under the brand of the same name, supporting the trade receivables of local health services' suppliers and pharmacists.

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Net interest income	118.693	98.175	20.518	20,9%
Net commission income	55.740	60.496	(4.756)	(7,9)%
Net banking income	**174.433**	**158.671**	**15.762**	**9,9%**
Net impairment losses on receivables	(20.305)	(21.248)	943	(4,4)%
Net profit (loss) from financial activities	**154.128**	**137.423**	**16.705**	**12,2%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	4th Q. 2016	4th Q. 2015	CHANGE	
			ABSOLUTE	%
Net interest income	39.449	24.114	15.335	63,6%
Net commission income	13.693	15.614	(1.921)	(12,3)%
Net banking income	**53.142**	**39.728**	**13.414**	**33,8%**
Net impairment losses on receivables	(5.081)	(6.491)	1.410	(21,7)%
Net profit (loss) from financial activities	**48.061**	**33.237**	**14.824**	**44,6%**

The net banking income of the Trade Receivables segment amounted to 174,4 million Euro, up 9,9% compared to 158,7 million Euro in 2015. The segment had very positive results in terms of volumes: it generated 10,5 billion Euro in turnover (+4,2% from December 2015), with 5.360 corporate customers (up 19% compared to the prior-year period) and 3,1 billion Euro in outstanding loans (+8,6% from December 2015). These results confirm that the Bank's business model, which focuses on supporting SMEs, is effective in a scenario with interest rates at record lows.

Volumes benefited also from the inclusion of the new subsidiary IFIS Factoring (contributing 192 million Euro in loans, of which 15,9 non-performing) in this segment, while the contribution to —referring only to December—was limited (207 thousand Euro).

In particular, net banking income increased thanks to, among other things, the results of the IFIS Pharma business area (+59,0%, from 29,4 million Euro in the prior year to 46,8 million Euro), which benefited from the adoption of the new model to estimate the cash flows of health service receivables purchased outright (contributing 15,8 million Euro). Specifically, the new method includes interest on arrears considered recoverable in the estimated cash flows, as it is a structural element of the day-to-day management of health service receivables.

Net value adjustments on receivables amounted to 20,3 million Euro (21,2 million Euro in the prior-year period, -4,4%), and referred almost entirely to adjustments made by Banca IFIS. Their ratio relative to the increased average loans resulted in an improved credit risk cost, which fell from 90 bps at 31 December 2015 to 79 bps.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Bad loans	31.692	30.950	742	2,4%
Unlikely to pay	50.900	39.551	11.349	28,7%
Past due loans	118.420	58.214	60.206	103,4%
Total net non-performing exposures to customers	**201.012**	**128.715**	**72.297**	**56,2%**
Net performing loans	2.891.476	2.719.409	172.067	6,3%
Total on-balance-sheet loans to customers	**3.092.488**	**2.848.124**	**244.364**	**8,6%**

Loans to customers included in this segment are composed as follows: 28,3% are receivables due from the Public Administration (compared to 32,1% at 31 December 2015) and 71,7% due from the private sector (compared to 67,9% at 31 December 2015).
Net non-performing exposures in the Trade Receivables segment rose 56,2% from 128,7 million Euro at the end of 2015 to 201,0 million Euro, largely because of rising past due exposures to the Public Administration. IFIS Factoring made a marginal contribution (15,9 million Euro). This was the result of the acquisitions of portfolios of past due loans carried out starting from late December 2015 under an agreement with a leading market player, which allowed the Bank to enter the multi-utilities business. These portfolios consist of receivables due from local administrations for which the Bank has commenced collection actions by entering into settlement plans.

As for unlikely to pay, the increase was largely attributable to three significant positions, totalling 16,5 million Euro, previously classified under non-performing and performing past due exposures.

The segment's net bad-loan ratio was 1,0%, down slightly from the end of 2015 (1,1% at 31 December 2015), while the ratio of net unlikely to pay to loans rose to 1,6% from 1,4% at 31 December 2015. The segment's ratio of total net non-performing exposures to loans rose from 4,5% at the end of 2015 to 6,5% at 31 December 2016. Net non-performing loans amounted to 16,5% as a percentage of Group equity, compared to 22,4% in the prior year.

NON-PERFORMING TRADE RECEIVABLES (in thousands of Euro)	BAD LOANS(1)	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL
BALANCE AT 31.12.2016				
Nominal amount of non-performing exposures	276.741	76.551	122.451	475.743
As a proportion of total gross receivables	*8,2%*	*2,3%*	*3,6%*	*14,1%*
Impairment losses	245.049	25.651	4.031	274.731
As a proportion of gross value	*88,5%*	*33,5%*	*3,3%*	*57,7%*
Net amount	31.692	50.900	118.420	201.012
As a proportion of net total receivables	*1,0%*	*1,6%*	*3,8%*	*6,5%*
BALANCE AT 31.12.2015				
Nominal amount of non-performing exposures	255.404	58.257	59.788	373.449
As a proportion of total gross receivables	*8,2%*	*1,9%*	*1,9%*	*12,0%*
Impairment losses	224.454	18.706	1.574	244.734
As a proportion of the nominal amount	*87,9%*	*32,1%*	*2,6%*	*65,5%*
Net amount	30.950	39.551	58.214	128.715
As a proportion of net total receivables	*1,1%*	*1,4%*	*2,0%*	*4,5%*

(1) **Bad loans** are recognised in the financial statements up to the point in which all credit collection procedures have been exhausted.

Net bad loans amounted to 31,7 million Euro, +2,4% from the end of 2015; the segment's net bad-loan ratio was 1,0%, compared to 1,1% at 31 December 2015. As a proportion of equity, net bad loans were unchanged from 31 December 2015 at 5,4%. The coverage ratio stood at 88,5% (87,9% at 31 December 2015)

The balance of **net unlikely to pay** was 50,9 million Euro, +28,7% from 39,6 at the end of 2015. The increase was largely attributable to three positions that fall into this risk category. The coverage ratio stood at 33,5% (32,1% at 31 December 2015)

Net non-performing past due exposures totalled 118,4 million Euro, compared with 58,2 million Euro in December 2015 (+103,4%). Past due exposures to the private sector rose from 57,0 million Euro in December 2015 to 71,6 million Euro at 31 December 2016, and the exposures to the public sector from 1,2 million Euro to 46,8 million Euro. The increase was due to the contribution from IFIS Factoring following the acquisition of the former GE Capital Interbanca Group as well as the purchases of past due loans finalised in late December 2015 under an agreement with a leading market player, which allowed the Bank to enter the multi-utilities business. These portfolios consist of receivables due from local administrations for which the Bank has commenced collection actions by entering into settlement plans.

The coverage ratio stood at 3,3% (2,6% at 31 December 2015)

KPI	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Turnover	10.549.881	10.126.397	423.484	4,2%
Net banking income/ Turnover	1,7%	1,6%	0	0,1%

KPI y/y	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Cost of credit quality	0,8%	0,9%	-	(0,1)%
Net bad loans/Loans to customers	1,0%	1,1%	-	(0,1)%
Net bad loans/Equity	2,6%	5,4%	-	(2,8)%
Coverage ratio on gross bad loans	88,5%	87,9%	-	0,7%
Non-performing exposures/Loans to customers	6,5%	4,5%	-	2,0%
Net non-performing loans/Equity	16,5%	22,4%	-	(6,0)%
Total RWA per segment	2.348.131	1.970.886	377.245	19,1%

The following table shows the nominal amount of receivables purchased (operating data not recognised in the statements) for factoring transactions outstanding at the end of the period (Total Receivables), broken down into receivables with or without recourse and receivables purchased outright. Please note that the breakdown of purchased receivables in the following table is based on the contract form used by the Bank.

TOTAL RECEIVABLES (in thousands of Euro)	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
With recourse	2.150.930	2.128.825	22.105	1,0%
of which due from the Public Administration	*332.735*	*361.000*	*(28.265)*	*(7,8)%*
Without recourse	464.956	277.159	187.797	67,8%
of which due from the Public Administration	*8.949*	*4.468*	*4.481*	*100,3%*
Outright purchases	1.264.950	1.170.998	93.952	8,0%
of which due from the Public Administration	*812.384*	*888.844*	*(76.460)*	*(8,6)%*
Total receivables	**3.880.836**	**3.576.982**	**303.854**	**8,5%**

of which due from the Public Administration	*1.154.068*	*1.254.312*	*(100.244)*	(8,0)%

The breakdown of customers by geographic area in Italy, with a separate indication for those abroad, is as follows:

BREAKDOWN OF CUSTOMERS BY GEOGRAPHIC AREA	LOANS	TURNOVER
Northern Italy	43,7%	52,4%
Central Italy	24,2%	30,9%
Southern Italy	25,4%	10,5%
Abroad	6,7%	6,2%
Total	**100,0%**	**100,0%**

Corporate Banking

This segment includes the following business areas:

- Medium/long/term financing, supporting the company's operating cycle through services ranging from working capital financing to the support for productive investments;
- Structured Finance, supporting companies in the legal, organisational and financial arrangement of bilateral or syndicated loans;
- Workout & Recovery, which manages the UTPs and Bad Loans of all the portfolios of the sector's other two business areas, as well as the runoff of project finance, shipping and real estate portfolios.

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Net interest income	8.385	n.a.	n.a.	n.a.
Net commission income	(5.260)	n.a.	n.a.	n.a.
Dividends and trading	(173)	n.a.	n.a.	n.a.
Net banking income	**2.952**	**n.a.**	**n.a.**	**n.a.**
Net impairment losses on receivables and other financial assets	(63)	n.a.	n.a.	n.a.
Net profit (loss) from financial activities	2.889	**n.a.**	**n.a.**	**n.a.**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	4th Q. 2016	4th Q. 2015	CHANGE	
			ABSOLUTE	%
Net interest income	8.385	n.a.	n.a.	n.a.
Net commission income	(5.260)	n.a.	n.a.	n.a.
Dividends and trading	(173)	n.a.	n.a.	n.a.
Net banking income	**2.952**	**n.a.**	**n.a.**	**n.a.**
Net impairment losses on receivables and other financial assets	(63)	n.a.	n.a.	n.a.
Net profit (loss) from financial activities	**2.889**	**n.a.**	**n.a.**	**n.a.**

The net banking income of the Corporate Banking sector, which contributed to the 2016 results only for the month of December, totalled 3,0 million Euro. This amount included the 8,5 million Euro positive impact of the breakdown of the difference between the fair value as measured in the business combination and the carrying amount of the receivables recognised by the subsidiaries over time. Net banking income also included 5,8 million Euro in commission expense for the arrangement of the Indigo Loan securitisation, as detailed in Part E of the Notes to the Consolidated Financial Statements.

STATEMENT OF FINANCIAL POSITION – (in thousands of Euro)	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Bad loans	27.260	n.a.	n.a.	n.a.
Unlikely to pay	142.741	n.a.	n.a.	n.a.
Past due loans	1.669	n.a.	n.a.	n.a.
Total net non-performing exposures to customers	**171.670**	**n.a.**	**n.a.**	**n.a.**
Net performing loans	734.012	n.a.	n.a.	n.a.
Total on-balance-sheet loans to customers	**905.682**	**n.a.**	**n.a.**	**n.a.**

NON-PERFORMING CORPORATE BANKING LOANS (in thousands of Euro)	BAD LOANS(1)	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL
BALANCE AT 31.12.2016				
Nominal amount of non-performing exposures	456.184	265.412	1.685	723.281
As a proportion of total gross receivables	*30,9%*	*18,0%*	*0,1%*	*49,0%*
Impairment losses	428.924	122.671	16	551.611
As a proportion of gross value	*94,0%*	*46,2%*	*0,9%*	*76,3%*
Net amount	27.260	142.741	1.669	171.670
As a proportion of net total receivables	*3,0%*	*15,8%*	*0,2%*	*19,0%*

KPI	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables manag	1.739.175	n.a.	n.a.	n.a.

ed				
Cost of credit quality	0,1%	n.a.	n.a.	n.a.
Net bad loans/Loans to customers	3,0%	n.a.	n.a.	n.a.
Net bad loans	2,2%	n.a.	n.a.	n.a.

/Equity				
Coverage ratio on gross bad loans	94,0%	n.a.	n.a.	n.a.
Non-performing exposures/L	19,0%	n.a.	n.a.	n.a.

oans to customers				
Net non-performing loans/Equity	14,1%	n.a.	n.a.	n.a.
Total RWA per segme	929.337	n.a.	n.a.	n.a.

n t				

Leasing

This sector provides finance and operating leases to small businesses and SMEs.

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Net interest income	4.916	n.a.	n.a.	n.a.
Net commission income	(6.095)	n.a.	n.a.	n.a.
Dividends and trading	7	n.a.	n.a.	n.a.
Net banking income	**(1.172)**	**n.a.**	**n.a.**	**n.a.**
Net impairment losses on loans and receivables	(1.510)	n.a.	n.a.	n.a.
Net profit (loss) from financial activities	**(2.682)**	**n.a.**	**n.a.**	**n.a.**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	4th Q. 2016	4th Q. 2015	CHANGE	
			ABSOLUTE	%
Net interest income	4.916	n.a.	n.a.	n.a.
Net commission income	(6.095)	n.a.	n.a.	n.a.
Dividends and trading	7	n.a.	n.a.	n.a.
Net banking income	**(1.172)**	**n.a.**	**n.a.**	**n.a.**
Net impairment losses on loans and receivables	(1.510)	n.a.	n.a.	n.a.
Net profit (loss) from financial activities	**(2.682)**	**n.a.**	**n.a.**	**n.a.**

The net banking income of the Leasing sector, which contributed to the 2016 results only for the month of December, was a negative 1,2 million Euro. Net banking income included also the 1,3 million Euro positive impact of the breakdown of the difference between the fair value as measured in the business combination and the carrying amount of the receivables recognised by the subsidiaries over time.

The amount included also 6,4 million Euro in commission expense for the arrangement of the Indigo Lease securitisation, as detailed in Part E of the Notes to the Consolidated Financial Statements.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Bad loans	6.177	n.a.	n.a.	n.a.
Unlikely to pay	13.622	n.a.	n.a.	n.a.
Past due loans	17.352	n.a.	n.a.	n.a.
Total net non-performing exposures to customers	**37.151**	**n.a.**	**n.a.**	**n.a.**
Net performing loans	1.198.487	n.a.	n.a.	n.a.
Total on-balance-sheet loans to customers	**1.235.638**	**n.a.**	**n.a.**	**n.a.**

NON-PERFORMING LEASING LOANS (in thousands of Euro)	BAD LOANS[1]	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL
BALANCE AT 31.12.2016				
Nominal amount of non-performing exposures	78.997	41.440	46.450	166.887
As a proportion of total gross receivables	*5,7%*	*3,0%*	*3,4%*	*12,1%*
Impairment losses	72.820	27.818	29.099	129.737
As a proportion of gross value	*92,2%*	*67,1%*	*62,6%*	*77,7%*
Net amount	6.177	13.622	17.351	37.150
As a proportion of net total receivables	*0,5%*	*1,1%*	*1,4%*	*3,0%*

KPI	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables managed	1.273.933	n.a.	n.a.	n.a.
Cost of credit quality	1,5%	n.a.	n.a.	n.a.
Net bad loans/Loans to customers	0,5%	n.a.	n.a.	n.a.
Net bad loans/Equity	0,5%	n.a.	n.a.	n.a.
Coverage ratio on gross bad loans	92,2%	n.a.	n.a.	n.a.
Non-performing exposures/Loans to customers	3,0%	n.a.	n.a.	n.a.
Net non-performing loans/Equity	3,0%	n.a.	n.a.	n.a.
Total RWA per segment	875.153	n.a.	n.a.	n.a.

NPL Area

This is the Banca IFIS Group's segment dedicated to non-recourse factoring and managing mostly unsecured distressed retail loans. It serves households under the CrediFamiglia brand.

The business is closely associated with recovering and collecting non-performing exposures.

The Bank manages the portfolio of acquired receivables using two different methods: non-judicial and judicial operations.

As for the portfolio managed through non-judicial operations, to measure them the Bank uses a model based on a simulation of cash flows that projects the “breakdown” of the nominal amount of the receivable “over time” based on the historical recovery profile for similar clusters. As for the positions with funding characteristics (bills of exchange or settlement plans agreed with the debtor), the Bank uses a “deterministic” model based on the measurement of the future instalments of the settlement plan, net of the historical default rate.

Judicial operations consist in collecting debts through legal actions to secure a court order for the garnishment of one fifth of pension benefits or wages. The cash flows from judicial operations are not simulated using the model: the manager individually measures them for each individual position and enters them in the system.

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Interest income from amortised cost	35.959	25.061	10.898	43,5%
Other interest income	115.542	21.056	94.486	448,7%
Funding costs	(6.442)	(3.612)	(2.830)	78,3%
Net interest income	**145.059**	**42.505**	**102.554**	**241,3%**
Net commission income	(2.220)	(1.153)	(1.067)	92,5%
Gain on sale of receivables	44.529	14.948	29.581	197,9%
Net banking income	**187.368**	**56.300**	**131.068**	**232,8%**
Net impairment losses/reversals on receivables	(32.628)	(3.613)	(29.015)	803,1%
Net profit (loss) from financial activities	**154.740**	**52.687**	**102.053**	**193,7%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	4th Q. 2016	4th Q. 2015	CHANGE	
			ABSOLUTE	%
Interest income from amortised cost	11.555	6.360	5.195	81,7%
Other interest income	25.295	3.069	22.226	724,2%
Funding costs	(2.026)	(1.214)	(812)	66,9%
Net interest income	**34.824**	**8.215**	**26.609**	**323,9%**
Net commission income	(769)	(761)	(8)	1,1%
Gain on sale of receivables	17.770	14.948	2.822	18,9%
Net banking income	**51.825**	**22.402**	**29.423**	**131,3%**
Net impairment losses/reversals on receivables	(9.045)	(584)	(8.461)	1.448,8%
Net profit (loss) from financial activities	**42.780**	**21.818**	**20.962**	**96,1%**

The results for the year were positively influenced by the continuing debt collection operations, consisting in bills of exchange and expressions willingness, as well as the reclassification to amortised cost of a sizeable share of the portfolio following the end of the documentary verification process and the ensuing bills of exchange and settlement plans entered into for these positions, contributing nearly 9,0 million Euro to net profit from financial activities.

Concerning net value adjustments, totalling 32,6 million Euro, 3,7 million Euro referred to the write-off of a number of positions for which the debtor was deceased and no heirs were found, and 1,2 million Euro to some positions for which the statute of limitations had expired. The item also included 29,3 million Euro in impairment losses referring to positions for which the net present value of expected cash flows had fallen below the purchase price, partly offset by 6,5 million Euro in interest accrued. This impact (NPV lower than the purchase price) included 4,8 million Euro in impairment losses recognised once the Bank reclassified a number of NPL positions acquired in recent years to amortised cost after completing the verification process to determine whether the new estimating model created at the end of 2015 could apply to positions with an “acceleration clause date” that is recent compared to the acquisition date. As a result of the reclassification to amortised cost, the Group recognised the impairment losses as well as 2,2 million Euro in additional interest income recognised under Interest receivable and similar income.

In addition, there were 1,6 million Euro in reversals of impairment losses consisting in additional interest income recognised under line item 130 up to the amount of the previously recognised impairment loss.

These events (NPV of cash flows lower than the purchase price, deceased debtor, and expired statute of limitations), in accordance with the Bank's accounting policy, represented trigger events causing the changes in amortised cost to qualify as impairment losses to be recognised under item 130 - Net value adjustments on receivables. However, the overall net profit from financial activities is more relevant to understanding the segment's performance.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Bad loans	320.612	159.336	161.276	101,2%
Unlikely to pay	241.518	194.995	46.523	23,9%
Past due loans	-	-	-	-
Total net non-performing exposures to customers	**562.130**	**354.331**	**207.799**	**58,6%**
Net performing loans	16	21	(5)	(23,8)%
Total on-balance-sheet loans to customers	**562.146**	**354.352**	**207.794**	**58,6%**

KPI	30.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables managed	9.660.196	8.161.005	1.499.191	18,4%
Total RWA per segment	562.146	354.352	207.794	58,6%

NPL PERFORMANCE	(in thousands of Euro)
Receivables portfolio at 31.12.2015	**354.352**
Purchases	195.606
Sales	(73.028)
Gain on sales	44.529
Interest income from amortised cost	35.959
Other components of net interest income from change in cash flow	115.542
Impairment losses/reversals from change in cash flow	(32.628)
Collections	(78.186)
Receivables portfolio at 31.12.2016	**562.146**

The purchases made in the period led to the acquisition of portfolios of financial receivables with a par value of approximately 3,1 billion Euro at a price of 195,6 million Euro, consisting of 463.566 positions. At 31 December 2016, the segment's receivables included 9,0 million Euro (par value of 744,6 million Euro, approximately 73 thousand positions) in loans sold at the end of the year after the Bank accepted the buyer's binding offer.

The mentioned binding offer contained all the elements required to determine whether all risks and rewards relating to the receivables sold were substantially transferred (derecognition). However, since the transfer had not been formally completed at the reporting date, the Bank presented the relevant impact without derecognising the assets: instead, it recognised a receivable due from the buyer equal to the consideration, and a payable due to the buyer equal to the amount of the receivables sold. The positive difference, amounting to 17,8 million Euro, was recognised in profit or loss under gains on the sale of receivables.

During 2016, the Bank finalised two other sales, raising 27,0 million Euro. Gains on sales included a 279 thousand Euro loss on the repurchase of some portfolios sold in late 2015 in accordance with contractual provisions.

During the year, the borrowers settled their debt mainly according to the following methods:

- in cash (postal orders, bank transfers, etc.);
- by signing bills of exchange;
- settlement plans agreed with the debtors (so-called expressions of willingness).

In 2016, funding was up steadily from 2015, reaching 312,2 million Euro compared to 244,5 million Euro, +27,7%: this was entirely attributable to settlement plans (expressions of willingness). Collections made during the year amounted to 78,2 million, compared to 55,6 million in the prior-year period.

At the end of the year, the portfolio managed by the NPL Area included 1.397.957 positions, for a par value of 9,7 billion Euro and nearly 967 thousand debtors.

Tax receivables

It is the segment specialised in purchasing tax receivables arising from insolvency proceedings; it operates under the Fast Finance brand and offers to buy both accrued and accruing tax receivables on which repayment has already been requested or which shall be requested in the future, and that arose during insolvency proceedings or in prior years. As a complement to its core business, this segment seldom acquires also trade receivables from insolvency proceedings.

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Net interest income	13.998	20.307	(6.309)	(31,1)%
Net commission income	(8)	28	(36)	(128,6)%
Net banking income	**13.990**	**20.335**	**(6.345)**	**(31,2)%**
Net impairment losses/reversals on receivables	(371)	(412)	41	(10,0)%
Net profit (loss) from financial activities	**13.619**	**19.923**	**(6.304)**	**(31,6)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	4th Q. 2016	4th Q. 2015	CHANGE	
			ABSOLUTE	%
Net interest income	3.129	8.827	(5.698)	(64,6)%
Net commission income	(3)	1	(4)	(400,0)%
Net banking income	**3.126**	**8.828**	**(5.702)**	**(64,6)%**
Net impairment losses/reversals on receivables	(102)	(286)	184	(64,3)%
Net profit (loss) from financial activities	**3.024**	**8.542**	**(5.518)**	**(64,6)%**

Net banking income is generated by the interest accrued according to the amortised cost method and funding costs allocated to the segment.
The net banking income of the Tax Receivables segment amounted to 14,0 million Euro, down 31,2% from 20,3 million Euro at 31 December 2015. However, the prior-year figure included the impact of a single transaction that resulted in a 5,2 million Euro gain in the fourth quarter of 2015.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Bad loans	5	-	5	n.a.
Unlikely to pay	194	-	194	n.a.
Past due loans	**-**	**-**	-	-
Total net non-performing exposures to customers	**199**	**-**	**199**	**n.a.**
Net performing loans	124.498	130.663	(6.165)	(4,7)%
Total on-balance-sheet loans to customers	**124.697**	**130.663**	**(5.966)**	**(4,6)%**

Since the Public Administration is the counterparty, tax receivables are classified as performing; trade receivables, on the other hand, are classified as non-performing exposures, if required.

KPI	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Nominal amount of receivables managed	172.145	190.553	(18.408)	(9,7)%
Total RWA per segment	50.004	41.614	8.390	20,2%

TAX RECEIVABLES PERFORMANCE	(in thousands of Euro)
Receivables portfolio at 31.12.2015	**130.690**
Purchases	63.599
Interest income from amortised cost	8.951
Other components of net interest income from change in cash flow	6.352
Impairment losses/reversals from change in cash flow	(371)
Collections	(84.524)
Receivables portfolio at 31.12.2016	**124.697**

During the period, the sector collected 84,5 million Euro and purchased 63,6 million Euro worth of receivables.
With these purchases, the segment's portfolio comprises 1.369 positions, for a par value of 172,1 million Euro and a value at amortised cost of 124,7 million Euro at 31 December 2016.

Governance and services

Governance and Services provides the operating segments with the financial resources and services necessary to perform their respective business activities. The segment comprises, among other things, the resources required for the performance of the services of the Audit, Administration-Accounting, Planning, Organisation and ICT functions, as well as the structures responsible for raising, managing and allocating financial resources to the operating segments. The data includes the contribution of the former GE Capital Interbanca Group not allocated to individual segments.

INCOME STATEMENT DATA (in thousands of Euro)	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Net interest income	(22.868)	47.639	(70.507)	(148,0)%
Net commission income	(1.046)	(586)	(460)	78,5%
Dividends and trading	4.942	125.599	(120.657)	(96,1)%
Net banking income	**(18.972)**	**172.652**	**(191.624)**	**(111,0)%**
Net value adjustments on receivables and other financial assets	(4.356)	(8.977)	4.621	(51,5)%
Net profit (loss) from financial activities	**(23.328)**	**163.675**	**(187.003)**	**(114,3)%**

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	4th Q. 2016	4th Q. 2015	CHANGE	
			ABSOLUTE	%
Net interest income	(12.193)	4.740	(16.933)	(357,2)%
Net commission income	(506)	(28)	(478)	1.707,1%
Dividends and trading	153	1.122	(969)	(86,4)%
Net banking income	**(12.546)**	**5.834**	**(18.380)**	**(315,0)%**
Net value adjustments on receivables and other financial assets	(357)	(728)	371	(51,0)%
Net profit (loss) from financial activities	**(12.903)**	**5.106**	**(18.009)**	**(352,7)%**

The sector's **net banking income** included the contribution of the securities portfolio to net interest income, which totalled 12,1 million Euro compared to 190,0 million Euro in the prior-year period. The decline was attributable to the reduced stock of securities in the portfolio (374,2 million Euro at 31 December 2016 compared to 3.221,5 million Euro at the end of 2015).
During the period, it made 5,5 million Euro in gains on the sale of securities.
As for Rendimax retail funding (4,5 billion Euro, compared to 3,1 billion Euro at 31 December 2015), the relevant cost amounted to 1,50%, compared to 1,24% in December 2015. The increase was the result of the new 3-, 4-, and 5-year maturities as well as some promotional campaigns aiming to boost funding levels ahead of the finalisation of the former GE Capital Interbanca Group acquisition.

Net value adjustments on available for sale financial assets, totalling 4,4 million Euro at 31 December 2016 (9,0 million Euro in the prior-year period), referred to impairment losses recognised on unlisted equity instruments that were found to be impaired.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Available for sale financial assets	374.229	3.221.533	(2.847.304)	(88,4)%
Held to maturity financial assets	-	-	-	n.a.
Due from banks	1.393.358	95.352	1.298.006	1361,3%
Loans to customers	7.561	103.997	(96.436)	(92,7)%
Due to banks	503.964	662.985	(159.021)	(24,0)%

Due to customers	5.045.136	5.487.476	(442.340)	(8,1)%

The loans to customers of the Governance and Services sector amounted to 7,6 million Euro, -92,7% from the prior-year, and essentially reflect the balance of margin lending related to repurchase agreements on the MTS platform with Cassa di Compensazione e Garanzia as counterparty. The decline was the result of the downsizing of the securities portfolio.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Bad loans	-	-	-	-
Unlikely to pay	-	-	-	-
Past due loans	-	-	-	-
Total net non-performing exposures to customers	**-**	**-**	**-**	**-**
Net performing loans	7.561	103.997	(96.436)	(92,7)%
Total on-balance-sheet loans to customers	**7.561**	**103.997**	**(96.436)**	**(92,7)%**

KPI	31.12.2016	31.12.2015	CHANGE	
			ABSOLUTE	%
Total RWA per segment	263.512(2)	25.256 (1)	238.256	943,4%

(1) Data restated after initial publication.
(2) The Governance and Services sector's RWAs include in 2016 the investment in IFIS Rental Services, a non-financial company consolidated using the equity method and that is not part of the Banking Group for supervisory purposes.

Group financial and income results

Statement of financial positions items

As described in the Introductory notes on how to read the data, the tables in this paragraph include a comparison of 2016 with the prior year excluding all effects attributable to the acquisition of the former GE Capital Interbanca Group (the data are presented in a column named “31.12.2016 normalised”), as if the business combination never took place.

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT			NORMALISED CHANGE	
	31.12.2016	31.12.2016 NORMALISED	31.12.2015	ABSOLUTE	%
Financial assets held for trading	47.393	397	259	138	53,3%
Available for sale financial assets	374.229	325.050	3.221.533	(2.896.483)	(89,9)%
Due from banks	1.393.358	1.194.420	95.352	1.099.068	1152,6%
Loans to customers	5.928.212	3.638.176	3.437.136	201.040	5,8%
Property, plant and equipment and intangible assets	125.329	77.953	59.333	18.620	31,4%
Other assets	830.624	225.447	144.107	81.340	56,4%
Total assets	**8.699.145**	**5.461.443**	**6.957.720**	**(1.496.277)**	**(21,5)%**
Due to banks	503.964	509.066	662.985	(153.919)	(23,2)%
Due to customers	5.045.136	4.095.416	5.487.476	(1.392.060)	(25,4)%
Debt securities issued	1.488.556	-	-	-	n.a.
Financial liabilities held for trading	48.478	2.031	21	2.010	9571,4%
Other liabilities	394.228	235.009	233.771	1.238	0,5%
Equity	1.218.783	619.921	573.467	46.454	8,1%
Total liabilities and equity	**8.699.145**	**5.461.443**	**6.957.720**	**(1.496.277)**	**(21,5)%**

The **financial assets and liabilities held for trading** outstanding at 31 December 2016 were incorporated with the acquisition of the former GE Capital Interbanca Group and referred to interest rate derivatives that Interbanca S.p.A. negotiated with its Corporate clients up to 2009 to provide them with instruments to hedge risks such as fluctuations in interest rates. In order to remove market risk, all outstanding transactions are hedged with “back to back” trades, in which Interbanca assumed a position opposite to the one sold to corporate clients with independent market counterparties. In addition, there were 397 thousand Euro worth of cross currency swaps with other banks.

Available for sale (AFS) financial assets, which include debt and equity securities, stood at 374,2 million Euro at 31 December 2016, -88,4% compared to 3.221,5 million Euro at the end of 2015. The normalised balance of AFS securities totalled 325,0 million Euro. The valuation reserve, net of taxes, was positive to the tune of 1,5 million Euro at 31 December 2016 (11,7 million Euro at 31 December 2015).

At 31 December 2016, the **debt securities** portfolio amounted to 353,2 million Euro, down 68,1% from 31 December 2015 (3.216,8 million Euro)—largely because of the 2,9 billion Euro worth of securities sold during the year, which resulted in a 5,5 million Euro gain.

Here below is the breakdown by maturity of the debt securities held.

Issuer/Maturity	3rd Q. 2017	2nd Q. 2019	2nd Q. 2020	Overall total
Government bonds	270.292	30.117	52.742	353.151
% of total	*76,5%*	*8,5%*	15,0%	*100,0%*

Available for sale financial assets include **equity securities** relating to non-controlling interests in unlisted companies, amounting to 17,1 million Euro (+264,6% compared to 31 December 2015). The increase was the result of the 15,1 million Euro contribution from the former Interbanca group (the normalised amount is 2,0 million Euro) and the 1,5 million Euro acquisition of an interest in Cassa di Risparmio di Cesena after paying a contribution to Italy's Interbank Deposit Protection Fund (FITD, *Fondo Interbancario di Tutela dei Depositi*) as payment for the bank's capital increase. The fair value of this interest is the subscription price assigned to the relevant capital increase. This interest was treated for accounting, tax and reporting purposes in accordance with the Italian Banking Association's communication of 4 August 2016 as confirmed by the Bank of Italy's technical note of 26 October 2016. During the year, the Group recognised a 4,4 million Euro write-down of the equity interests in two investees after they were tested for impairment.
Available for sale financial assets include also 3,9 million Euro in UCITS units deriving from the acquisition of the former GE Capital Interbanca Group.

Receivables due from banks

At 31 December 2016, **receivables due from banks** totalled 1.393,4 million Euro, compared to 95,4 million Euro at 31 December 2015. This excess liquidity ensures the margin required to carry out banking operations as well as the funds necessary to seize potential market opportunities.

Loans to customers

Loans to customers totalled 5.928,2 million Euro, up 72,5% from 3.437,1 million Euro at the end of 2015, thanks largely to the contribution from the GE Capital Interbanca Group: the normalised balance of loans to customers was 3.638,2 million Euro (+5,8% compared to 2015).

Specifically, the NPL Area's receivables were up +58,6% as a result of new acquisitions as well as the reclassification to amortised cost of a sizeable portion of the portfolio previously recognised at cost pending the completion of the preparations for said reclassification. Also the loans of the trade receivables segment were up (+8,6%). Corporate Banking and Leasing, the new sectors born from the acquisition of the former GE Capital Interbanca Group, contributed 905,7 and 1.235,6 million Euro, respectively. Tax receivables were down as a result of the significant collections recognised during the year. Receivables in the Governance and Services sector fell by 92,7% because of the decrease in margin lending related to repurchase agreements on the MTS platform with Cassa Compensazione e Garanzia as counterparty—the result of the mentioned reduction of the portfolio of refinanceable securities.

The breakdown of loans to customers was as follows: 16,9% are due from the Public Administration and 83,1% from the private sector (compared to 30,4% and 69,6% at 31 December 2015).

There are no major risks concerning this item.

LOANS TO CUSTOMERS: BREAKDOWN BY SEGMENT (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2016	31.12.2015	ABSOLUTE	%
Trade receivables	3.092.488	2.848.124	244.364	8,6%
- *of which non-performing*	*201.012*	*128.715*	*72.297*	*56,2%*
Corporate Banking	905.682	n.a.	n.a.	n.a.
- *of which non-performing*	*171.670*	n.a.	n.a.	n.a.
Leasing	1.235.638	n.a.	n.a.	n.a.
- *of which non-performing*	*37.150*	n.a.	n.a.	n.a.
NPL Area	562.146	354.352	207.794	58,6%
- *of which non-performing*	*562.130*	*354.331*	*207.799*	*58,6%*
Tax Receivables	124.697	130.663	(5.966)	(4,6)%
- *of which non-performing*	*199*	*-*	*199*	*n.a.*
Governance and Services	7.561	103.997	(96.436)	(92,7)%
- *of which with Cassa di Compensazione e Garanzia*	*4.748*	*103.636*	*(98.888)*	*(95,4)%*
Total loans to customers	**5.928.212**	**3.437.136**	**2.491.076**	**72,5%**
- of which non-performing	***972.161***	***483.046***	***489.115***	***101,3%***

Total net **non-performing exposures**, which are significantly affected by the receivables of the NPL Area, amounted to 972,2 million Euro in December 2016, compared to 483,0 million Euro at the end of 2015 (+55,2%).

Here below is the breakdown of forborne exposures by segment.

FORBEARANCE (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	CONS. TOTAL
Bad loans						
Amounts at 31.12.2016	2.439	5.587	730	33.550	-	42.306
Amounts at 31.12.2015	*371*	n.a.	n.a.	*15.064*	-	*15.435*
% Change	*557,4%*	*n.a.*	*n.a.*	*122,7%*	-	*174,1%*
Unlikely to pay						-
Amounts at 31.12.2016	19.312	98.575	6.258	53.368	-	177.513
Amounts at 31.12.2015	*14.414*	n.a.	n.a.	*19.309*	-	*33.723*
% Change	*34,0%*	*n.a.*	*n.a.*	*176,4%*	-	*426,4%*
Past due loans						-
Amounts at 31.12.2016	-	1.457	2.302	-	-	3.759
Amounts at 31.12.2015	*5.300*	n.a.	n.a.	-	-	*5.300*
% Change	*(100,0)%*	*n.a.*	*n.a.*	-	-	*(29,1)%*
Performing loans						-
Amounts at 31.12.2016	6.955	35.882	-	15	-	42.852
Amounts at 31.12.2015	*2.954*	n.a.	n.a.	*5*	-	*2.959*
% Change	*135,4%*	*n.a.*	*n.a.*	*200,0%*	-	*1348,2%*

CREDIT QUALITY (in thousands of Euro)	TRADE RE-CEIVABLES	CORPO-RATE BANK-ING	LEASING	NPL AREA	TAX RECEIVA-BLES	GOVERN-ANCE AND SERVICES	CONS. TO-TAL
Bad loans							
Amounts at 31.12.2016	31.692	27.260	6.177	320.612	5	-	*385.746*
Amounts at 31.12.2015	*30.950*	*n.a.*	*n.a.*	*159.336*	*-*	*-*	*190.286*
% Change	*2,4%*	*n.a.*	*n.a.*	*101,2%*	*n.a.*	*-*	*102,7%*
Unlikely to pay							-
Amounts at 31.12.2016	50.900	142.741	13.622	241.518	*194*	-	*448.975*
Amounts at 31.12.2015	*39.551*	*n.a.*	*n.a.*	*194.995*	*-*	*-*	*234.546*
% Change	*28,7%*	*n.a.*	*n.a.*	*23,9%*	*n.a.*	*-*	*91,4%*
Past due loans							-
Amounts at 31.12.2016	*118.420*	*1.669*	*17.351*	-	-	-	*137.440*
Amounts at 31.12.2015	*58.214*	*n.a.*	*n.a.*	*-*	*-*	*-*	*58.214*
% Change	*103,4%*	*n.a.*	*n.a.*	*-*	*-*	*-*	*136,1%*
Total net non-performing exposures							
Amounts at 31.12.2016	***201.012***	***171.670***	***37.150***	***562.130***	***199***	**-**	***972.161***
Amounts at 31.12.2015	***128.715***	*n.a.*	*n.a.*	***354.331***	**-**	**-**	***483.046***
% Change	***56,2%***	***n.a.***	***n.a.***	***58,6%***	***n.a.***	**-**	***101,3%***
Net performing loans to customers							-
Amounts at 31.12.2016	2.891.476	734.012	1.198.488	16	124.498	7.561	*4.956.051*
Amounts at 31.12.2015	*2.719.409*	*n.a.*	*n.a.*	21	130.663	103.997	*2.954.090*
% Change	*6,3%*	*n.a.*	*n.a.*	*(23,8)%*	*(4,7)%*	*(92,7)%*	*67,8%*
Total on-balance-sheet loans to cus-tomers							
Amounts at 31.12.2016	***3.092.488***	***905.682***	***1.235.638***	***562.146***	***124.697***	***7.561***	***5.928.212***
Amounts at 31.12.2015	***2.848.124***	***n.a.***	***n.a.***	***354.352***	***130.663***	***103.997***	***3.437.136***
% Change	***8,6%***	***n.a.***	***n.a.***	***58,6%***	***(4,6)%***	***(92,7)%***	***72,5%***

Intangible assets and property, plant and equipment and investment property

Intangible assets totalled 15,0 million Euro, compared to 7,2 million Euro at 31 December 2015 (+108,9%).

The item refers to software (14,2 million Euro) as well as goodwill (799 thousand Euro) arising from the consolidation of the investment in IFIS Finance Sp.Z o.o.

Property, plant and equipment and investment property amounted to 110,3 million, up +111,5% from 52,2 million Euro at the end of 2015; the significant increase was largely due to the contribution from the former GE Capital Interbanca Group as well as the capitalisation of the costs for the restructuring of the property in Florence, which in 2016 became the new headquarters of the NPL business area. The normalised balance of property, plant and equipment and investment property totalled 64,0 million Euro, +22,8% from the end of 2015.

At the end of the period, the properties recognised under property, plant and equipment and investment property included the important historical building "Villa Marocco", located in Mestre – Venice and housing Banca IFIS's registered office, as well as, following the acquisition of the former GE Capital Interbanca Group, two buildings in Milan, housing the registered offices of Interbanca S.p.A. and some Group companies.

Since Villa Marocco is a luxury property, it is not amortised, but it is tested for impairment at least annually. To this end, they are appraised by experts specialising in luxury properties. During the year, there were no indications requiring to test the assets for impairment.

Tax assets and liabilities

These items include current and deferred tax assets and liabilities.

The following table shows the breakdown of current tax assets by type.

CURRENT TAX ASSETS (in thousands of Euro)	AMOUNTS AT			NORMALISED CHANGE	
	31.12.2016	31.12.2016 NORMALISED	31.12.2015	ABSOLUTE	%
Irap (regional tax on productive activities)	10.728	8.922	-	8.922	-
Ires (corporate income tax)	14.078	1.011	1.035	(24)	(2,3)%
Ires on sale of receivables	21.278	21.278	21.278	-	-
Credits from DTA Conversion	41.737	-	-	-	-
Others	15	15	2	13	650,0%
Total current tax assets	**87.836**	**31.226**	**22.315**	**8.911**	**39,9%**

Current tax assets, totalling 87,8 million Euro, included 41,7 million Euro in tax credits from the conversion of deferred tax assets (DTAs) in accordance with Italian Law no. 214/2011, 24,7 million Euro in IRES/IRAP credits claimed in the tax return, and 21,2 million Euro in credits acquired from third parties.

The main types of deferred tax assets are set out below:

DEFERRED TAX ASSETS (in thousands of Euro)	AMOUNTS AT			NORMALISED CHANGE	
	31.12.2016	31.12.2016 NORMALISED	31.12.2015	ABSOLUTE	%
Differences from PPA	253.030	-	-	-	n.a.
Loans to customers (Law 214/2011)	192.310	-	-	-	n.a.
Loans to customers	42.978	36.184	38.058	(1.874)	(4,9)%
Equipment rental	1.460	-	-	-	n.a.
Provisions for risks and charges	1.209	1.209	561	648	115,5%
Others	2.193	972	803	169	21,0%
Total deferred tax assets	**493.180**	**38.365**	**39.422**	**(1.057)**	**(2,7)%**

Deferred tax assets, amounting to 493,1 million Euro, included 253 million Euro in misalignments found during the acquisition of the former GE Capital Interbanca Group (PPA) and 228,5 million Euro in value adjustments on receivables that can be deducted in the following years.

Current tax liabilities refer exclusively to IRAP payables, as showed below.

CURRENT TAX LIABILITIES (in thousands of Euro)	AMOUNTS AT			NORMALISED CHANGE	
	31.12.2016	31.12.2016 NORMALISED	31.12.2015	ABSOLUTE	%
IRAP Balance	491	-	4.093	(4.093)	(100,0)%
Others	-	-	60	(60)	(100,0)%
Total current tax liabilities	**491**	**-**	**4.153**	**(4.153)**	**(100,0)%**

The main types of deferred tax liabilities are shown below:

DEFERRED TAX LIABILITIES (in thousands of Euro)	AMOUNTS AT			NORMALISED CHANGE	
	31.12.2016	31.12.2016 NORMALISED	31.12.2015	ABSOLUTE	%
Loans to customers	13.293	13.293	15.257	(1.964)	(12,9)%
Property, plant and equipment	9.433	325	309	16	5,2%
Available for sale securities	394	394	5.770	(5.376)	(93,2)%
Others	1.315	407	60	347	578,3%
Total deferred tax liabilities	**24.434**	**14.419**	**21.396**	**(6.977)**	**(32,6)%**

Other assets and liabilities

Other assets amounted to 249,6 million Euro at 31 December 2016 (+203,0% from 31 December 2015). The normalised balance was 155,8 million Euro, up 89,3% from December 2015.

This line item included 7,2 million Euro in receivables due from Italian tax authorities for payments on account (stamp duty and withholding taxes), 27,9 million Euro in funds placed in an escrow account pending the resolution of a dispute, and 15,0 million Euro in VAT credits claimed. The item also included a 43,9 million Euro receivable due from the parent company La Scogliera S.p.A. deriving from the tax consolidation regime. Finally, it also included 26,9 million Euro in receivables due from the buyers of NPL portfolios.

At the end of the period, other liabilities totalled 337,3 million Euro (64,9% compared to December 2015). The normalised balance was 209,0 million Euro, +2,2% from 31 December 2015. The most significant items referred largely to amounts due to customers that have not yet been credited.

Funding

FUNDING (in thousands of Euro)	AMOUNTS AT			NORMALISED CHANGE	
	31.12.2016	31.12.2016 NORMALISED	31.12.2015	ABSOLUTE	%
Due to customers:	**5.045.136**	**4.095.416**	**5.487.476**	**(1.392.060)**	**(25,4)%**
Repurchase agreements	*270.314*	*270.314*	*2.278.983*	*(2.008.669)*	*(88,1)%*
Rendimax	*4.447.192*	*3.656.836*	*3.048.357*	*608.479*	*20,0%*
Contomax	*72.068*	*69.916*	*64.912*	*5.004*	*7,7%*
Other payables	*255.562*	*98.350*	*95.224*	*3.126*	*3,3%*
Due to banks	**503.964**	**509.066**	**662.985**	**(153.919)**	**(23,2)%**
Eurosystem	-	-	*119.792*	*(119.792)*	*(100,0)%*
Repurchase agreements	*50.886*	*50.886*	*384.225*	*(333.339)*	*(86,8)%*
Other payables	*453.078*	*458.180*	*158.968*	*299.212*	*188,2%*
Outstanding securities	**1.488.556**	**-**	**-**	**-**	**n.a.**
Total funding	**7.037.656**	**4.604.482**	**6.150.461**	**(1.545.979)**	**(25,1)%**

Total funding, which amounted to 7.037,7 million Euro at 31 December 2016, up 14,4% compared to 31 December 2015, is represented for 71,7% by **Payables due to customers** (compared to 89,2% at 31 December 2015), for 7,2% by **Payables due to banks** (compared to 10,8% at 31 December 2015), and for 21,1% by **Outstanding securities** (zero at 31 December 2015). The normalised balance of funding totalled 4.604,5 million Euro, -25.1% from 31 December 2015.

Payables due to customers at 31 December 2016 totalled 5.045,1 million Euro (-8,1% compared to 31 December 2015). The decrease was the result of the settlement of 2.279,0 million Euro worth of repurchase agreements with underlying government bonds and Cassa di Compensazione e Garanzia as counterparty outstanding at 31 December 2015, which were followed by 270,3 million Euro worth of purchases. Meanwhile, retail funding rose to 4.519,3 million Euro at 31 December 2016, including 4.447,2 from rendimax and 72,1 million Euro from contomax, compared to 3.113,3 million Euro at 31 December 2015 (+45,2%). This was the result of, among other things, the newly introduced 3-, 4- and 5-year maturities as well as some promotional campaigns aiming to boost funding levels ahead of the finalisation of the former GE Capital Interbanca Group acquisition. The Bank still bears proportional stamp duty costs on rendimax and contomax, which amount to 0,20%.

Payables due to banks, totalling 504,0 million Euro (compared to 663,0 million Euro in December 2015), were down 24,0% because of the early repayment of the TLTRO loan received in December 2014. Since market conditions have changed, the Bank can now raise funding on more favourable terms than said loan. Repurchase agreements with underlying governments bonds outstanding at 31 December 2016 totalled 50,9 million Euro, down from 384,2 million Euro in December 2015 after the Bank settled them and entered into new transactions.

Also term deposits at other banks rose to 453,1 million Euro from 159,0 million Euro at the end of the previous year (+185,0%).

Outstanding securities amounted to 1.448,6 million Euro. They included 83,2 million Euro in bond loans and 725 thousand Euro in certificates of deposits issued by Interbanca S.p.A.,

as well as 1.404,6 million Euro in notes issued by the special purpose vehicles as part of three securitisations launched at the end of 2016, as detailed in Part E of the Notes to the Consolidated Financial Statements.

Provisions for risks and charges

PROVISIONS FOR RISKS AND CHARGES (in thousands of Euro)	AMOUNTS AT			NORMALISED CHANGE	
	31.12.2016	31.12.2016 NORMALISED	31.12.2015	ABSOLUTE	%
Legal disputes	9.577	1.855	1.513	342	22,6%
Tax dispute	-	-	197	(197)	(100,0)%
Other provisions	14.741	-	461	(461)	(100,0)%
Total provisions for risks and charges	**24.318**	**1.855**	**2.171**	**(316)**	**(14,6)%**

Here below is the breakdown of the provision for risks and charges at the end of the year by type of dispute compared with the prior year. For the sake of clarity, the provisions deriving from the acquisition of the former GE Capital Interbanca Group are reported separately.

Legal disputes

Banca IFIS legal disputes

The provision outstanding at 31 December 2016, amounting to 1,9 million Euro, included 1,8 million Euro for 17 disputes concerning the Trade Receivables segment (the plaintiffs seek 18,0 million Euro in damages), and 100 thousand Euro for 8 disputes concerning the NPL Area segment.

Former GE Capital Interbanca Group legal disputes

The provision outstanding at 31 December 2016, amounting to 7,7 million Euro, included 250 thousand Euro for a dispute involving IFIS Factoring (the plaintiffs seek 500 thousand Euro in damages), 2,0 million Euro for 26 disputes concerning IFIS Leasing (the plaintiffs seek 4,3 million Euro in damages), and 5,5 million Euro for 7 disputes involving Interbanca (the plaintiffs seek 50,6 million Euro in damages).

Tax dispute

Banca IFIS tax dispute

The provision for risks at the end of 2015, amounting to 197 thousand Euro, referred to the amount set aside for the verification notices received by the Bank, which had filed an appeal against them with the competent Tax Commission. In July 2016, the Bank reached a full and final settlement with the Italian Revenue Agency, and subsequently paid the agreed amount to settle the above verification notices.

Other provisions

Other Banca IFIS provisions

The provision at 31 December 2016 included 2,5 million Euro in the amount set aside for commissions to be paid in early 2017 in order to buy back the senior tranche of the leasing securitisation (eligible securities).

The provision outstanding at 31 December 2015 referred to the amount set aside as per the request of Italy's Interbank Deposit Protection Fund (FITD, *Fondo Interbancario di Tutela dei Depositi*), of which Banca IFIS is a member. In a letter dated 16 September 2014, the FITD approved another rescue loan (in addition to the measures announced on 9 January 2014 and 17 July 2014) to Banca Tercas, placed under Special Administration. The relevant potential obligation for Banca IFIS amounted to 0,5 million Euro. Therefore, in 2014 Banca IFIS allocated said amount to the provisions for risks and charges. Since the underlying commitments have expired, the Bank has recognised the amount previously set aside through profit or loss.

Other former GE Capital Interbanca Group provisions

The provision outstanding at 31 December 2016, amounting to 12,3 million Euro, included 3,7 million Euro in personnel-related expenses and 8,6 million Euro in other provisions, including 3,5 million Euro for customer allowances and 3,8 million Euro as provision for risks on unfunded commitments.

Contingent liabilities

See Part B of the Notes to the Consolidated Financial Statements, “provisions for risks and charges”.

Equity and capital adequacy ratios

At 31 December 2016, consolidated Equity was 1.218,8 million Euro, compared to 573,5 million Euro at 31 December 2015 (+112,5%). The normalised equity totalled 619,9 million Euro, +8,1% from 31 December 2015. The breakdown of the item and the change compared to the previous year are detailed in the tables below.

EQUITY: BREAKDOWN (in thousands of Euro)	AMOUNTS AT			NORMALISED CHANGE	
	31.12.2016	31.12.2016 NORMALISED	31.12.2015	ABSOLUTE	%
Share capital	53.811	53.811	53.811	-	*0,0%*
Share premiums	101.776	101.776	58.900	42.876	*72,8%*
Valuation reserves:	(5.445)	(6.109)	5.739	(11.848)	*(206,4)%*
- AFS securities	*1.534*	*955*	*11.677*	*(10.722)*	*(91,8)%*
- Post-employment benefits	*(123)*	*(208)*	*(167)*	*(41)*	*24,6%*
- exchange differences	*(6.856)*	*(6.856)*	*(5.771)*	*(1.085)*	*18,8%*
Reserves	383.835	383.835	298.856	84.979	*28,4%*
Treasury shares	(3.187)	(3.187)	(5.805)	2.618	*(45,1)%*
Non-controlling interests	48	-	-	-	*n.a.*
Profit for the period	687.945	89.795	161.966	(72.171)	*(44,6)%*
Equity	**1.218.783**	**619.921**	**573.467**	**46.454**	**8,1%**

EQUITY: CHANGES (in thousands of Euro)	YEAR 2016
Equity at 31.12.2015	**573.467**
Increases:	**696.886**
Profit for the year	687.945
Sale/grant of treasury instruments	8.681
Change in valuation reserve:	44
- Post-employment benefits	*44*
Other changes	168
Equity attributable to non-controlling interests	48
Decreases:	**51.570**
Dividends distributed	40.342
Change in valuation reserve:	11.228
- AFS securities	*10.143*
- exchange differences	*1.085*
Equity at 31.12.2016	**1.218.783**

The change in the valuation reserve for AFS securities recognised in the period was the result of the sale of part of the portfolio, which caused the Bank to reduce the reserve by 5,5 million Euro.
The change in the valuation reserve for exchange differences refers mainly to exchange differences deriving from the consolidation of the subsidiary IFIS Finance Sp. Z o.o..

OWN FUNDS AND CAPITAL ADEQUACY RATIOS (in thousands of Euro)	AMOUNTS AT	
	31.12.2016	31.12.2015 (2)
Common equity Tier 1 Capital(1) (CET1)	1.031.163	464.316
Tier 1 Capital (T1)	1.048.606	473.956
Total own funds	**1.071.929**	**486.809**
Total RWA	**7.003.305**	**3.264.088**
Common Equity Tier 1 Ratio	14,72%	14,22%
Tier 1 Capital Ratio	14,97%	14,52%
Total Own Funds Capital Ratio	**15,31%**	**14,91%**

(1) Common Equity Tier 1 capital includes the profit for the period net of estimated dividends.
(2) Total consolidated own funds (amounting to 486.809 thousands Euro) differ from the amount reported in the consolidated financial statements for the year ended 31 December 2015 (501.809 thousands Euro) due to the 15 million Euro dividend payout approved by the Shareholders' Meeting of the parent company La Scogliera S.p.A. on 23 March 2016. The consolidated supervisory reports at 31 December 2015, as well as the relevant capital adequacy ratios, had already been adjusted at the end of March 2016 to account for said dividend payout. The data on consolidated Own Funds and capital adequacy ratios account for the impact of said distribution.

Consolidated own funds, risk-weighted assets and solvency ratios at 31 December 2016 were determined based on the regulatory principles set out in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) dated 26 June 2013, which were transposed in the Bank of Italy's Circulars no. 285 and 286 of 17 December 2013.

Article 19 of the CRR requires to include the unconsolidated Holding of the banking group in prudential consolidation. The capital adequacy ratios of the Banca IFIS Group alone, presented exclusively for information purposes, would be as showed in the following table.

OWN FUNDS AND CAPITAL ADEQUACY RATIOS: BANCA IFIS GROUP SCOPE (in thousands of Euro)	AMOUNTS AT	
	31.12.2016	31.12.2015
Common equity Tier 1 Capital(1) (CET1)	1.099.249	514.453
Tier 1 Capital (T1)	1.099.249	514.453
Total own funds	**1.099.401**	**514.453**
Total RWA	**6.999.061**	**3.261.103**
Common Equity Tier 1 Ratio	15,71%	15,78%
Tier 1 Capital Ratio	15,71%	15,78%
Total Own Funds Capital Ratio	**15,71%**	**15,78%**

(1) Common Equity Tier 1 capital includes the profit for the period net of estimated dividends.

The measures concerning own funds provide for the gradual phase-in of a new regulatory framework, with a transitional period lasting until 2017 during which some elements that will be accounted for or deducted in full once the provisions become effective will have only a limited impact.

The Banca IFIS Group, in accordance with the transitional provisions in the Bank of Italy's Circular no. 285 of 17 December 2013 as amended, calculated its own funds at 31 December 2016 by excluding the unrealised gains referring to the exposures to central governments classified under “Available for sale financial assets” as per IAS 39, resulting in a net positive amount of 391 thousand Euro (positive 5,9 million Euro at 31 December 2015).

Income statements items

As described in the Introductory notes on how to read the data, the tables in this paragraph include a comparison of 2016 with the prior year excluding all effects attributable to the acquisition of the former GE Capital Interbanca Group (the data are presented in a column named “31.12.2016 normalised”), as if the business combination never took place.

Please note that the former GE Capital Interbanca Group contributed to the 2016 results only in the month of December.

Formation of net banking income

Net banking income totalled 358,6 million Euro, down 12,1% from 408,0 million Euro in the prior year. Normalising the results for the material impacts from the acquisition of the former GE Capital Interbanca Group in 2016, net banking income amounted to 364,6 million Euro.

The acquisition added 6,0 million Euro to net banking income, and this amount mainly included: the contribution from the receivables of the new Corporate Banking and Leasing sectors, as well as the positive impact of the breakdown of the difference between the fair value as measured in the business combination and the carrying amount of the receivables recognised by the subsidiaries over time; the costs related to the funding for the acquisition of the former GE Capital Interbanca Group, which concerned the increase in Rendimax funding volumes and the securitisations carried out at the end of 2016.

The table below shows the results for the year excluding the above effects: net banking income fell 10,6% net of the gain on the sale of financial assets realised in April 2015 as part of the rebalancing of the government bond portfolio (124,5 million Euro), while the Group's net banking income was up 28,6%.

In 2016, net banking income rose as a result of, among other things, the 44,5 million Euro gain on the sale of some portfolios of receivables of the NPL Area and the 15,8 million Euro positive effect recognised under interest income from the implementation of the new model to estimate the cash flows of health service receivables.

NET BANKING INCOME (in thousands of Euro)	YEAR			NORMALISED CHANGE	
	2016	31.12.2016 NORMALISED	2015	ABSOLUTE	%
Net interest income	268.183	262.312	208.626	53.686	25,7%
Net commission income	41.111	52.807	58.783	(5.976)	(10,2)%
Net result from trading	(702)	(553)	(78)	(475)	609,0%
Profit (loss) from sale or buyback of receivables	44.529	44.529	14.948	29.581	197,9%
Profit from sale or buyback of financial assets	5.478	5.495	125.679	(120.184)	(95,6)%
Net banking income	**358.599**	**364.590**	**407.958**	**(43.368)**	**(10,6)%**

In the **fourth quarter**, net banking income stood at 97,3 million Euro, up from 76,8 million Euro in the prior-year period (+26,7%). The normalised net banking income for the fourth quarter of 2016 was up 34,5% to 103,3 million Euro.

Net interest income rose from 208,6 million Euro at 31 December 2015 to 268,2 million Euro at 31 December 2016 (+28,5%). Interest expense included 10,7 million Euro in costs associated with the acquisition, including the differential funding cost on Rendimax deposits and the funding cost of the securitisation. The normalised net interest income was 263,3 million Euro, up 25,7% from 31 December 2015.
Net commission income totalled 41,1 million Euro, down from 31 December 2015 (-30,1%). The normalised amount was 52,8 million Euro, down 10,2%.
Commission income, totalling 59,4 million Euro (normalised amount: 58,1 million Euro), compared to 63,2 million Euro at 31 December 2015, came primarily from factoring commissions on the turnover generated by individual customers (with or without recourse, in a flat or monthly scheme) as well as from other fees usually charged to customers for services.
Commission expense, totalling 18,3 million Euro (4,4 at 31 December 2015), included 12,5 million Euro in up-front commissions for the factoring, leasing and lending securitisations carried out in December 2016; the normalised amount was 5,3 million Euro and referred largely to approved banks' mediation activities, the work of other credit intermediaries, and commissions paid to correspondent banks and factors.
The **gain on the sale of receivables**, totalling 44,5 million Euro, arose from the sale of a number of portfolios of receivables of the NPL Area. The item included a 279 thousand Euro loss on the repurchase of some portfolios sold in late 2015.

The **gain on the sale of financial assets** arose from the sale of part of the government bond portfolio completed in the first half of 2016, resulting in a 5,5 million Euro gain.

Formation of net profit from financial activities

The Group's **net profit from financial activities** totalled 299,4 million Euro, compared to 373,7 million Euro at 31 December 2015 (-19,9%). The net profit from financial activities normalised for the acquisition totalled 306,9 million Euro.

The table below shows the results for the year excluding the above effects: net profit from financial activities fell 17,9% net of the gain on the sale of financial assets realised in April 2015 as part of the rebalancing of the government bond portfolio (124,5 million Euro), while the Group's net profit from financial activities was up 23,2%.

FORMATION OF NET PROFIT FROM FINANCIAL ACTIVITIES (in thousands of Euro)	YEAR			NORMALISED CHANGE	
	2016	31.12.2016 NORMALISED	2015	ABSOLUTE	%
Net banking income	**358.599**	**364.590**	**407.958**	**(43.368)**	**(10,6)%**
Net impairment losses on:	(59.233)	(57.651)	(34.250)	(23.401)	68,3%
loans and receivables	(54.882)	(53.295)	(25.273)	(28.022)	110,9%
available for sale financial assets	(4.356)	(4.356)	(8.977)	4.621	(51,5)%
other financial transactions	5	-	-	-	n.a.
Net profit (loss) from financial activities	**299.366**	**306.939**	**373.708**	**(66.769)**	**(17,9)%**

Net value adjustments on receivables totalled 54,9 million Euro (compared to 25,3 million Euro at 31 December 2015, +117,2%). 20,3 million Euro referred to Trade Receivables, 32,6 million Euro to the NPL Area,1,5 million Euro to the Leasing sector, and 0,4 million Euro to Tax Receivables. As for net value adjustments on NPL receivables, they referred to positions for which trigger events occurred, causing the position to become impaired under the adopted measurement model and the relevant accounting policy, as detailed in Contribution of business segments.

Net value adjustments on available for sale financial assets, totalling 4,4 million Euro at 31 December 2016 (9,0 million Euro in the prior-year period), referred to impairment losses recognised on unlisted equity instruments that were found to be impaired.

In the **fourth quarter**, net profit from financial activities totalled 81,2 million Euro (compared to 68,7 million Euro in the fourth quarter of 2015).

Formation of profit for the year

Profit for the year , including 40 thousand Euro attributable to non-controlling interests, amounted to 688,0 million Euro, compared to 162,0 million Euro in 2015, up 324,7%. Normalising for the business combination, the profit for the year totalled 89,8 million Euro.

The impact of the acquisition of the former GE Capital Interbanca Group on the Banca IFIS Group's profit for the year mainly referred to the 623,6 million Euro gain on bargain purchase recognised under operating costs.

FORMATION OF PROFIT FOR THE YEAR (in thousands of Euro)	YEAR			NORMALISED CHANGE	
	2016	31.12.2016 NORMALISED	2015	ABSOLUTE	%
Net profit (loss) from financial activities	**299.366**	**306.939**	**373.708**	**(66.769)**	**(17,9)%**
Operating costs	421.160	(172.161)	(128.119)	(44.042)	34,4%
Pre-tax profit from continuing operations	**720.526**	**134.778**	**245.589**	**(110.811)**	**(45,1)%**
Income tax expense	(32.541)	(44.983)	(83.623)	38.640	(46,2)%
Profit for the period	**687.985**	**89.795**	**161.966**	**(72.171)**	**(44,6)%**
Non-controlling interests	40	-	-	-	n.a.
Parent Company profit for the year	**687.945**	**89.795**	**161.966**	**(72.171)**	**(44,6)%**

The cost/income ratio based on the normalised income statement totalled 47,2%, compared to 31,4% at 31 December 2015.

OPERATING COSTS (in thousands of Euro)	YEAR			NORMALISED CHANGE	
	2016	31/12/2016 NORMALISED	2015	ABSOLUTE	%
Personnel expenses	65.878	56.621	48.342	8.279	17,1%
Other administrative expenses	126.276	106.343	78.828	27.515	34,9%
Allocations to provisions for risks and charges	1.849	(251)	229	(480)	(209,6)%
Net value adjustments on property, plant and equipment and intangible assets	6.055	5.851	3.746	2.105	56,2%
Other operating charges (income)	(621.218)	3.597	(3.026)	6.623	(218,9)%
Total operating costs	**(421.160)**	**172.161**	**128.119**	**44.042**	**34,4%**

Personnel expenses rose 36,3% to 65,9 million Euro (48,3 million Euro in December 2015), and included 5,5 million Euro in costs deriving from the agreements with some top executives of the GE Capital Interbanca Group attributable to the previous management. Normalised personnel expenses totalled 56,6 million Euro (+17,1% from 2015) as a result of new hiring (190 staff added during 2016, compared to 177 in 2015). The increase is consistent with the goal to strengthen some areas and services supporting the business—especially in the NPL Area sector—and the scenario in which the Group operates. At December 2016, the Group had 1.323 employees, of which 479 from the former GE Capital Interbanca Group.

Other administrative expenses totalled 126,3 million Euro, up 60,2% from 78,8 million Euro at 31 December 2015 because of the costs incurred for the acquisition of the former GE Capital Interbanca Group (9,5 million Euro in legal and consulting fees) and the higher business volumes in the NPL Area. The relevant costs for collecting debts and gathering information on clients (29,4 and 9,4 million Euro, compared to 15,4 and 5,3 million Euro at 31 December 2015, respectively), are included in this item of the income statement. The cost of gathering information on clients specifically concern master data and employment information search costs, which are necessary to reclassify the positions being processed.

There was also an increase in the expenses related to the new organisation of business processes and the internal control system. The normalised balance of other administrative expenses totalled 106,3 million Euro, +34,9% from 31 December 2015.

OTHER ADMINISTRATIVE EXPENSES (in thousands of Euro)	YEAR			NORMALISED CHANGE	
	2016	31.12.2016 NORMALISED	2015	ABSOLUTE	%
Expenses for professional services	**56.995**	**45.375**	**31.044**	**14.331**	**46,2%**
Legal and consulting services	25.511	14.347	13.948	399	2,9%
Auditing	428	255	226	29	12,8%
Outsourced services	31.056	30.773	16.870	13.903	82,4%
Direct and indirect taxes	**14.882**	**13.357**	**8.748**	**4.609**	**52,7%**
Expenses for purchasing goods and other services	**54.399**	**47.611**	**39.036**	**8.575**	**22,0%**
Customer information	11.376	11.282	6.793	4.489	66,1%
Software assistance and hire	5.550	4.988	3.267	1.721	52,7%
Postage of documents	5.254	5.211	3.632	1.579	43,5%
Property expenses	4.667	4.429	4.585	(156)	(3,4)%
Advertising and inserts	3.769	3.674	2.150	1.524	70,9%
Car fleet management and maintenance	2.407	2.324	2.264	60	2,7%
Telephone and data transmission expenses	1.923	1.841	1.441	400	27,8%
Employee travel	1.665	1.613	1.120	493	44,0%
Other sundry expenses	17.788	12.249	13.784	(1.535)	(11,1)%
Total administrative expenses	**126.276**	**106.343**	**78.828**	**27.515**	**34,9%**
Expense recoveries	(2.348)	(2.348)	(2.998)	650	(21,7)%
Total net other administrative expenses	**123.928**	**103.995**	**75.830**	**28.165**	**37,1%**

The subline item direct and indirect taxes included 7,6 million Euro (+25,9% compared to 31 December 2015) in stamp duty costs for retail funding, which the Banks continues bearing.

Other sundry expenses included the contributions due to Italy's Bank Resolution Fund and Interbank Deposit Protection Fund for the current year, totalling 10,5 million Euro compared to 10,6 million Euro in the previous year.

Net allocations to provisions for risks and charges totalled 1,8 million Euro (compared to 229 thousand Euro in December 2015). The amount at 31 December 2016 consisted of 274 and 68 thousand Euro in net provisions for disputes concerning Trade Receivables and the NPL Area, respectively, as well as the 2,5 million Euro set aside for the commissions to be paid in early 2017 in order to buy back the senior tranche of the leasing securitisation (eligible securities). In addition, the Bank recouped 251 thousand Euro after settling a tax dispute, 461 thousand Euro related to an allocation to the Interbank Deposit Protection Fund, 141 thousand Euro following the settlement of a dispute involving Interbanca, and 281 thousand Euro by reversing an excess provision related to the Leasing sector.

Other net operating income, totalling 621,2 million Euro (3,0 million Euro at 31 December 2015), included the 623,6 million Euro gain on bargain purchase from the acquisition of the former GE Capital Interbanca Group. The normalised amount included 3,6 million Euro in other net operating expenses, which refer for 2,8 million Euro to the expense incurred for a legal dispute and 1,5 million Euro to contractual penalties following the termination of two service contracts. The item also includes revenue from the recovery of expenses charged to third parties: the relevant cost is included in other administrative expenses, namely under legal expenses and indirect taxes.

Pre-tax profit for the period stood at 720,5 million Euro, compared to 245,6 million Euro at 31 December 2015. The normalised pre-tax profit was 134,8 million Euro.

Income tax expense amounted to 32,5 million Euro (45,0 million Euro normalised), compared to 83,6 million Euro at 31 December 2015. The Group's tax rate fell from 34,0% at 31 December 2015 to 4,5% at 31 December 2016; the total for 2016 was influenced by the recognition of the above mentioned gain on bargain purchase, which is not considered for tax purposes, in profit or loss. The tax rate based on the normalised income statement was 33,4%.

Profit for the year totalled 688,0 million Euro, compared to 162,0 million Euro in 2015; the normalised amount was 89,8 million Euro.

The corresponding figure for the **fourth quarter** was 621,7 million Euro (13,2 million Euro in the prior-year period).

With 40 thousand euro in profit attributable to non-controlling interests, the **profit for the year attributable to the Parent Company** totalled 687,9 million Euro.

(in thousands of Euro)	YEAR 2016		YEAR 2015	
	EQUITY:	OF WHICH PROFIT FOR THE YEAR	EQUITY:	OF WHICH PROFIT FOR THE YEAR
Parent company balance	596.975	71.722	567.509	160.743
Difference compared to the carrying amounts of the companies consolidated line by line	621.808	616.223	5.958	1.223
- IFIS Finance Sp. Zo.o.	*6.645*	*1.772*	*5.958*	*1.223*
- Interbanca S.p.a.	*615.163*	*614.451*	*n.a.*	*n.a.*
Group consolidated balance	**1.218.783**	**687.945**	**573.467**	**161.966**

Main risks and uncertainties

Taking into account the business carried out and the results achieved, the Group's financial position is proportionate to its needs. Indeed, the Group's financial policy is aimed at favouring funding stability and diversification rather than the immediate operating needs. The main risks and uncertainties deriving from the present conditions of financial markets do not represent a particular problem for the Group's financial balance and, in any case, they are not likely to threaten business continuity.

Reference should be made to section E of the Notes to the Consolidated Financial Statements for further information on the Banca IFIS Group's risks.

Banca IFIS shares

The share price

As from 29 November 2004, Banca IFIS S.p.A.'s ordinary shares have been listed on the STAR segment of Borsa Italiana (the Italian stock exchange). The transfer to STAR occurred a year after the listing on the Mercato Telematico Azionario (MTA, an electronic stockmarket) of Borsa Italiana S.p.A.. Previously, as from 1990, the shares had been listed on the Mercato Ristretto (MR, a restricted market) of Borsa Italiana. The following table shows the share prices at the end of the year. As from 18 June 2012, Banca IFIS joined the Ftse Italia Mid Cap index.

Official share price	31.12. 2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
Share price at period-end	26,00	28,83	13,69	12,95	5,53

ANNUAL SHARE PRICE

Price/book value

The following table shows the ratio of the stock market value at period-end to consolidated equity with respect to the shares outstanding.

Price/book value	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
Share price at period-end	26,00	28,83	13,69	12,95	5,53
Consolidated Equity per share	22,81	10,81	8,27	7,21	5,77
Price/book value	**1,14**	**2,67**	**1,65**	**1,80**	**0,96**

Outstanding shares	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
Number of shares outstanding at period end (in thousands)(1)	53.431	53.072	52.924	52.728	53.551

(1) Outstanding shares are net of treasury shares held in the portfolio.

Earnings per share and Price/Earnings

Here below is the ratio of the consolidated profit for the year to the weighted average of the ordinary shares outstanding at year-end, net of treasury shares in portfolio, as well as the ratio of the year-end price to consolidated earnings per share.

Earnings per share (EPS)	31.12.2016	31.12.2015
Consolidated profit for the period (in thousands of Euro)	687.945	161.966
Consolidated earnings per share	**12,94**	**3,05**

Earnings per share and diluted earnings per share	31.12.2016	31.12.2015
Consolidated profit for the period (in thousands of Euro)	**687.945**	**161.966**
Average number of outstanding shares	53.153.178	53.034.493
Average number of potentially dilutive shares	9.635	5.787
Average number of diluted shares	53.143.543	53.028.706
Consolidated earnings per share for the period (Units of Euro)	**12,94**	**3,05**
Consolidated diluted earnings per share for the period (Units of Euro)	**12,95**	**3,05**

Payout ratio

For 2016, the Board of Directors proposed to the Shareholders' Meeting to distribute a dividend of 0,82 Euro per share.

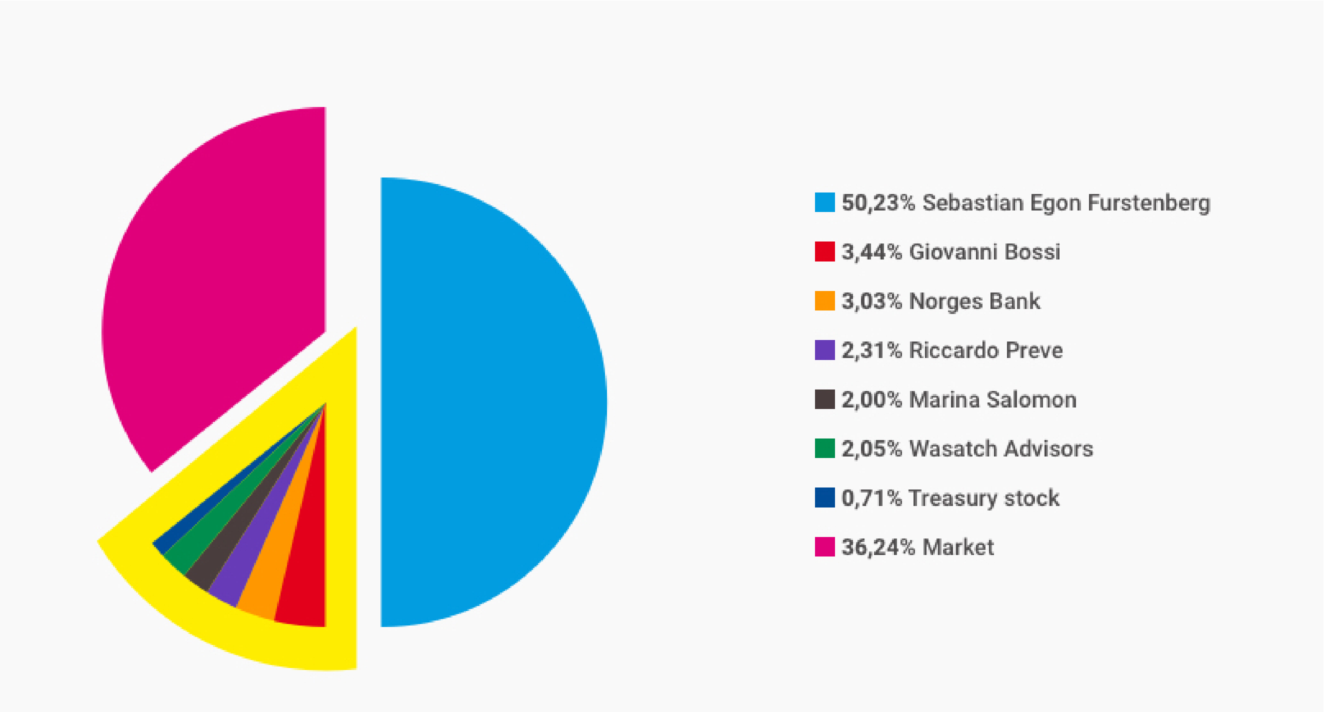
Payout ratio (in thousands of Euro)	2016	2015	2014	2013	2012
Consolidated profit for the year	687.945	161.966	95.876	84.841	78.228
Parent company dividends	43.813	40.334	34.930	30.055	19.813
Payout ratio	**6,4%**	**24,9%**	**36,4%**	**35,4%**	**25,4%**

The 2016 payout ratio was influenced by the *gain on bargain purchase* from the acquisition of the former GE Capital Interbanca Group. Normalizing net profit for the year from all effects attributable to the acquisition, the 2016 payout ratio would stand at 48,8%.

Shareholders

The share capital of the Parent Company at 31 December 2016 amounted to 53.811.095 Euro and is broken down into 53.811.095 shares with a par value of 1 Euro each.

The following table shows Banca IFIS's shareholders that, either directly or indirectly, own equity instruments with voting rights representing over 2% of Banca IFIS's share capital:



Corporate governance rules

Banca IFIS has adopted the Corporate Governance Code for listed companies.

A Control and Risks Committee, an Appointments Committee, and a Remuneration Committee have been set up within the Bank's Board of Directors, which has also appointed a Supervisory Board with independent powers of action and control as per Italian Legislative Decree 231/2001.

Internal dealing rules

Banca IFIS S.p.A. has been adopting for some time now a specific Code of Conduct as regards internal dealing. The aim of this Code of Conduct is to make internal regulations and procedures compliant with disclosure requirements concerning any significant transactions carried out by relevant subjects, or parties closely related to them, on financial instruments issued by the company or other related instruments, hence ensuring the transparency and consistency of information disclosed to the market.

This Code, in addition to identifying the relevant subjects—and defining their conduct and disclosure requirements—and the person responsible for receiving, managing and disseminating information, also forbids said transactions in the 15 days prior to Board of Directors' Meetings convened to approve financial statements (blackout periods).

This Code of Conduct for internal dealing is available on the Company's website, www.bancaifis.com, under the 'Investor Relations' section.

List of Insiders

In compliance with article 115-bis of Italian Legislative Decree no. 58/1998, Banca IFIS has created a list of individuals who, in performing their professional and work duties or in carrying out their activity, have access to privileged information (the list of insiders). Banca IFIS constantly updates this list.

In addition, the Bank has laid down regulations for the internal management and external dissemination of documents and corporate information.

Significant events occurred during the year

Banca IFIS transparently and timely discloses information to the market, constantly publishing information on significant events through press releases. Please refer to the "Investor Relations\Press Releases" section on the website www.bancaifis.it for complete details.

http://www.bancaifis.com/Media-room/Press-releases

Here below is a summary of the most significant events.

Acquisition of GE Capital Interbanca

On 30 November 2016, after obtaining the authorisations of the competent Supervisory Authorities on 29 November 2016, Banca IFIS acquired 99,99% of the former GE Capital Interbanca S.p.A.. The acquisition was conducted by entering into a Share Purchase Agreement (SPA) on 28 July 2016 with GE Capital International Holdings Limited. The 160 million Euro purchase price is subject to an adjustment mechanism to be calculated based on the financial position at the effective date. Under the agreement, GE Capital Interbanca and its subsidiaries fully repaid the amount due to the holding company, which amounted to approximately 2,1 billion Euro.

Significant subsequent events

No significant events occurred between the end of the year and the approval of the draft financial statements by the Board of Directors.

Outlook

The outlook for Europe and Italy is clouded by significant political and social uncertainty. A series of crucial elections hang in the balance—and combine with socio-economic tensions that the Italian and European governments are struggling to address. After years in which GDP has contracted or, more recently, grown at a modest pace, it is not possible to push back against the calls for changing Europe's institutional architecture without a credible and shared alternative to the status quo. Therefore, in Europe, and especially in Italy, it is hard to imagine how to raise economic growth, which would lead to new investments, boost confidence, and ultimately make public debts more sustainable.

The growth forecasts for the next few years cannot thus be expected to be completely accurate, and there is considerable uncertainty about the impact that the upcoming elections as well as the new international scenario and Britain's exit from the EU could have on economic indicators.

The robust GDP growth rates registered in other historical periods now appear to be a thing of the past, in Europe as well as maybe all industrialised countries. This is due to several factors, of which only some concern the economy. This situation has led some experts to argue that advanced economies may be facing a "**secular stagnation**", with extremely long periods of weak growth, low or no returns on risk-free investments, and low or zero inflation.

In the reference European markets, the cost of money remains at record lows—although it is expected to rise moderately in the not-so-distant future—because of two factors: the ECB's monetary policy, and still limited price increases (except for the rebound in oil prices). Core inflation remains largely unchanged because of the relatively modest use of the factors of production as well as other shifts—chief among them, the growing **digitisation of the economy**, which is driving down the cost of goods while disrupting traditional economic sectors. Monetary policy measures—not welcomed by everyone in Europe—should bring inflation near the central bank's target rates, even though a core inflation of just below 2% (excluding oil prices) remains a distant prospect in Europe.

It does not appear possible to steadily and sustainably grow our way out of the last few years of economic crisis without restarting the flow of credit to the real economy—especially in Italy.

Against this backdrop, the Banca IFIS Group's ability to provide support to small- and medium-sized businesses, also thanks to strengthening capital adequacy ratios and increasing liquidity, continues representing a competitive advantage, enabling it to acquire new customers—also with the new scope following the acquisition of the former Interbanca Group. The market is still characterised by the limited and selective supply of credit, and the demand for appropriate solutions—especially for companies that are small in size and have less measurable or low credit standing.

In 2017, the Banca IFIS Group will complete its restructuring following the acquisition of the former Interbanca Group, which was finalised on 30 November 2016. IFIS Factoring S.r.l. will be merged into Banca IFIS (after transferring the relevant shares from Interbanca S.p.A. and IFIS Leasing S.r.l. To the Parent Company) by the third quarter of 2017, and the merger of Interbanca S.p.A. will be completed before the end of the year. Then, consistently with the intention to streamline the Group's organisational structure, IFIS Leasing S.r.l. is expected to be merged into the Parent Company during 2018.

In commercial terms, the former Interbanca Group's operations have been organised by product line and will be developed as follows. Concerning finance and operating leases, which have strong synergies with Banca IFIS's traditional operations, special emphasis will be placed on returning to volumes consistent with the potential of IFIS Leasing. We expect to expand our presence across all business areas—especially in the automotive and equipment segments, and with the exception of real estate and shipping. In this sense, the cross-selling of the leasing and trade finance distribution networks will be key: combined, these ensure the Group maintains a widespread presence throughout Italy. As for corporate finance, this is the segment of Interbanca S.p.A., which operates in the following sectors: medium-term financing to businesses; structured finance; management of the non-performing and run-off portfolio. It consists of three different business units, and, as far as trade receivables are concerned, special emphasis will be placed on developing smaller-sized customers, boosting profitability, and making credit risk determinable. There will be a renewed push in the structured finance business, returning Interbanca to its leadership position. The Group will be as pro-active as possible in collecting non-performing loans, aware of contingent market needs and focusing on selling assets based on a rigorous assessment of economic viability. We will be able to do so also because we are not subject to the prudential capital requirements that force most Italian banks to make otherwise unnecessary sacrifices.

Concerning the scope of the former Interbanca Group—which will be mostly merged into Banca IFIS by the end of this year, and will therefore not report its results separately—we expect a steady increase in profitability, which could allow to reach the break-even point right away after several years of structural losses.

The Bank has been overhauling, and is continuing to overhaul, its distribution network, increasing its headcount and reimagining it to better meet the needs of tomorrow. The merger with the former Interbanca Group strengthens our ability to engage with the market as well as leads to an immediate and significant increase in the number of corporate customers, which will be gradually targeted by cross-selling initiatives. We expect to increase the number of corporate customers and loans during the year, and throughout 2017 we will see whether these measures can boost overall profitability based on market trends. At the macroeconomic level, the scenario for business lending sees on the one hand a large amount of liquidity available, which puts downward pressure on lending interest rates; on the other hand, several institutions are reluctant to increase their exposure to avoid repercussions in terms of regulatory capital absorption. However, margins are limited across the board, and especially on loans to customers with a higher credit standing. If the recovery drives up demand for credit, and the challenges facing some institutions constrain the supply, we can reasonably expect this situation to gradually reverse, at least in the medium term.

The Group will continue focusing on smaller entities: given the need to pay close attention during the lending process to mitigate risks by using factoring and leasing, the profitability of this segment currently appears less compromised. The Bank will continue expanding its presence in the international markets where it operates; in the pharmaceutical industry and pharmacy segments; and in the sector of receivables due from Italy's Public Administration.

Overall, margins on business lending are likely to remain stable and gradually improve in the near future; in any case, the Bank will continue focusing on companies with less resources. This approach, which we introduced in 2016, will increase the number of smaller-sized customers—and could compensate for the pressure on margins.

Banca IFIS will play an increasingly important role in the **non-performing loan** sector *(NPL Area)*, providing solutions in demand at lenders and financial institutions across Italy and abroad to manage non-performing loans in the face of the mentioned mounting regulatory pressure—which aims to remove excess non-performing loans from the balance sheets of the institutions with limited regulatory capital. We will continue monitoring and bidding for the portfolios of receivables due from households that originators are expected to place on the market. Banca IFIS is making progress in managing NPLs in terms of organisational and operating solutions, which allows to continue increasing collection rates. As in recent times, considering the abundant liquidity of the market; the Bank's ability to turn the quality of the portfolios into a strength in dealings with debtors; and the opportunity to scale up operating volumes, benefiting the bank and the debtors involved in its initiatives, Banca IFIS will consider trading in the secondary market. Specifically, it may also continue selling already processed portfolios with the goal of freeing up resources, using them to further expand the business, or buy portfolios that other players already started processing. The Bank will manage and collect debts using new techniques, including legal actions involving properties and against debtors with lower amounts outstanding; in addition, it will specifically strengthen phone relationships with customers, as these involve lower operating costs and are considerably more effective. The Bank will continue looking at the secured micro real estate sector, which shares some similarities with what the Bank is already doing, as well as the retail business segment. We expect this segment, which is proving capable of generating steady returns, to make an additional significant contribution to overall profitability.

As for **tax receivables**, the Bank maintains its leadership in this segment, given the good medium-term profitability of these investments. Also in this segment, margins are under pressure because of competition, but the Bank enjoys significant competitive advantages because of the recognised quality of its work and its operational skills. Returns will remain decent in an environment of risk-free rates of return stuck at zero.

As for the profitability of the **Governance and Services** sector, funding retails costs remain stable in the face of the current and projected steady increase in assets under management. The Bank aims to further develop retail funding, as it considers it to be an excellent source of funding. The interest rates at or below zero in the funding market remain available to non-first-tier banks only if they have prime collateral. Alternatively, wholesale funding has and will have costs broadly similar to retail funding, but the latter's stability is more consistent with the profile of the Bank's loans. Nonetheless, the Group is finalising or conducting a number of transactions to monetise assets through securitisations that, based on the quality of the underlying assets, will be financed on the Eurosystem (leasing assets) or the wholesale market (factoring assets)—as well as implementing procedures such as ABACO (the Bank of Italy's collateral management system). As for the government bond portfolio, the bank is not planning any significant changes: as it continues to gradually shrink in size, the relevant trading has become immaterial. However, to seize the last opportunity to participate in the TLTRO programme (amount: 700 million Euro), the Group must ensure it has enough adequate collateral, which will consist mostly of eligible instruments generated by the Group and backed by its own assets.

As the Board of Directors approves the 2016 Financial Statements, the Group is also adopting the new 2017-2019 Strategic Plan. Over a three-year period, it seeks to grow the Bank's presence in the reference sectors by adopting a stand alone approach, leaving ample room for additional actions concerning regulatory capital, liquidity, and human and technological resources. The Bank will therefore consider opportunities for inorganic growth in similar or adjacent sectors—as well as specific measures concerning portfolios or classes of either non-performing or performing assets. These will be based on the relevant characteristics as well as the opportunities that will come up from time to time in a market in which players will likely seek to dispose of assets in order to boost regulatory capital.

In light of the above, the Group can reasonably expect to remain profitable also 2017, considering the circumstances that gave rise to—often non-recurring—profits during 2016.

Other information

Adoption of Opt-Out Option Pursuant To Consob Regulation 18079 of 20 January 2012

On 21 January 2013, Banca IFIS's Board of Directors resolved, as per art. 3 of Consob Regulation no. 18079 of 20 January 2012, to adopt the opt-out option pursuant to art. 70, paragraph 8 and art. 71, paragraph 1-bis, of Consob’s Regulation on Issuers, thus exercising the right to depart from the obligations to publish information documents required in connection with significant operations like mergers, spin-offs, capital increases by contribution in kind, acquisitions and sales.

Report on Corporate Governance and Shareholding Structure

Pursuant to article 123 bis, paragraph three, of Italian Legislative Decree no. 58 of 24 February 1998 (the Consolidated Law on Banking), a report, separate from this Directors' report, was prepared. It was approved by the Board of Directors and published together with the draft financial statements at 31 December 2016. Furthermore, this document is available on Banca IFIS's website, www.bancaifis.com, in the 'Corporate Governance' Section.

The Report on Corporate Governance and Shareholding Structure has been drawn up according to the format provided by Borsa Italiana.

Together with this Report, the "Report on Remuneration" prepared pursuant to art. 123 ter of the Consolidated Law on Finance, was also made available.

Privacy measures

In compliance with article 34, paragraph 1, letter g) of Italian Legislative Decree no. 196 of 30 June 2003 (the Personal Data Protection Code), the group periodically updates its 'Security Policy Document' setting out the measures taken to guarantee the protection of processed personal data.

Parent Company management and coordination

Pursuant to arts. 2497 to 2497 sexies of the Italian Civil Code, it should be noted that the Parent Company La Scogliera S.p.A. does not carry out any management and coordination activities with respect to Banca IFIS, notwithstanding art. 2497 sexies of the Italian Civil Code, since the management and coordination of investee financial companies and banks is expressly excluded from La Scogliera's corporate purpose.

National consolidated tax regime

Banca IFIS, together with the parent company, La Scogliera S.p.A., opted for the application of group taxation (tax consolidation) in accordance with arts. 117 et seq. of Italian Presidential Decree 917/86.
Transactions between these companies were regulated by means of a private written agreement between the parties, signed in the month of April 2016. This agreement will lapse after three years. Banca IFIS has an address for the service of notices of documents and proceedings relating to the tax periods for which this option is exercised at the office of La Scogliera S.p.A., the consolidating company.
Under this tax regime, Banca IFIS's taxable income is transferred to La Scogliera S.p.A., which is responsible for calculating the overall group income. As a result, at 31 December 2016 Banca IFIS recognised net receivables due from the parent company amounting to 43,9 million Euro.

In 2016, the subsidiaries acquired from the former GE Capital Interbanca Group continued participating in the existing National Tax Consolidation, whose scope include Interbanca S.p.A. as the consolidating company and IFIS Leasing S.p.A., IFIS Factoring S.r.l., and IFIS Rental Services S.r.l. as consolidated companies.

Pursuant to the specific consolidation agreements between the parties under said regime, the individual companies are not refunded for any tax losses contributed to the Tax Consolidation; in addition, the taxes on any taxable profit of the individual entities that are part of the National Tax Group are paid only if, and to the extent that, the Consolidating Company actually pays them to Italian Tax Authorities based on the results of the Group's National Tax Consolidation.

Transactions on treasury shares

At 31 December 2015, the bank held 739.446 treasury shares recognised at a market value of 5,8 million Euro and a par value of 739.446 Euro.
During 2016 Banca IFIS made the following transactions on treasury shares:

- as variable pay for the 2015 financial results, it awarded the Top Management 9.295 treasury shares at an average price of 26,92 Euro, for a total of 250 thousand Euro and a par value of 9.295 Euro, making profits of 191 thousand Euro that, in compliance with IASs/IFRSs, were recognised under the capital reserve;
- it sold, at an average price of 24,09 Euro, 350.000 treasury shares with a market value of 8,4 million Euro and a par value of 350.000 Euro, making profits of 5,9 million Euro that, in compliance with IASs/IFRSs, were recognised under the capital reserve.

The remaining balance at the end of the year was 380.151 treasury shares with a market value of 3,2 million Euro and a par value of 380.151 Euro.

Related-party transactions

In compliance with the provisions of Consob resolution 17221 of 12 March 2010 and subsequently amended by means of Resolution 17389 dated 23 June 2010, as well as the prudential Supervisory provisions for banks in Circular no. 263 of 27 December 2006, Title V, Chapter V (12 December 2011 update) on "Risk activities and conflicts of interest towards related parties" issued by the Bank of Italy, any transactions with related parties and relevant parties are authorised pursuant to the procedure approved by the Board of Directors, which was most recently updated on 10 November 2016.

This document is publicly available on Banca IFIS's website, www.bancaifis.it, in the 'Corporate Governance' Section.

During 2016, no significant transactions with related parties were undertaken.

For information on individual related party transactions, please refer to part H of the Notes to the Consolidated Financial Statements.

Atypical or unusual transactions

During 2016, the Banca IFIS Group did not carry out atypical or unusual transactions as defined by Consob Communication no. 6064293 of 28 July 2006.

Research and development activities

Due to its business, the Group did not implement any research and development programmes during the year.

Venice - Mestre, 16 March 2017

For the Board of Directors

The Chairman

Sebastien Egon Fürstenberg

The C.E.O.

Giovanni Bossi

Consolidated Financial Statements

Consolidated Statement of Financial Position

	Assets (in thousands of Euro)	31.12.2016	31.12.2015
10.	Cash and cash equivalents	34	34
20.	Financial assets held for trading	47.393	259
40.	Available for sale financial assets	374.229	3.221.533
60.	Due from banks	1.393.358	95.352
70.	Loans to customers	5.928.212	3.437.136
120.	Property, plant and equipment	110.348	52.163
130.	Intangible assets	14.981	7.170
	of which:		
	- goodwill	*799*	*820*
140.	Tax assets	581.016	61.737
	a) current	87.836	22.315
	b) deferred	493.180	39.422
	of which as per Italian law 214/2011	*191.417*	-
160.	Other assets	249.574	82.336
	Total assets	**8.699.145**	**6.957.720**

	Liabilities and equity (in thousands of Euro)	31.12.2016	31.12.2015
10.	Due to banks	503.964	662.985
20.	Due to customers	5.045.136	5.487.476
30.	Debt securities issued	1.488.556	
40.	Financial liabilities held for trading	48.478	21
80.	Tax liabilities	24.925	25.549
	a) current	491	4.153
	b) deferred	24.434	21.396
100.	Other liabilities	337.325	204.598
110.	Post-employment benefits	7.660	1.453
120.	Provisions for risks and charges	24.318	2.171
	b) other reserves	24.318	2.171
140.	Valuation reserves	(5.445)	5.739
170.	Reserves	383.835	298.856
180.	Share premiums	101.776	58.900
190.	Share capital	53.811	53.811
200.	Treasury shares (-)	(3.187)	(5.805)
210.	Non-controlling interests (+ / -)	48	-
220.	Profit (loss) for the period (+/-)	687.945	161.966
	Total liabilities and equity	**8.699.145**	**6.957.720**

Consolidated Income Statement

	Items (in thousands of Euro)	31.12.2016	31.12.2015
10.	Interest receivable and similar income	325.438	250.210
20.	Interest due and similar expenses	(57.255)	(41.584)
30.	**Net interest income**	**268.183**	**208.626**
40.	Commission income	59.406	63.174
50.	Commission expense	(18.295)	(4.391)
60.	**Net commission income**	**41.111**	**58.783**
80.	Net result from trading	(702)	(78)
100.	Gain (loss) on sale or buyback of:	50.007	140.627
	a) loans and receivables	44.529	14.948
	b) available for sale financial assets	5.478	125.679
120.	**Net banking income**	**358.599**	**407.958**
130.	Net impairment losses/reversal on	(59.233)	(34.250)
	a) loans and receivables	(54.882)	(25.273)
	b) available for sale financial assets	(4.356)	(8.977)
	d) other financial transactions	5	-
140.	**Net profit (loss) from financial activities**	**299.366**	**373.708**
180.	Administrative expenses:	(192.154)	(127.170)
	a) personnel expenses	(65.878)	(48.342)
	b) other administrative expenses	(126.276)	(78.828)
190.	Net allocations to provisions for risks and charges	(1.849)	(229)
200.	Net impairment losses/Reversal on property, plant and equipment	(2.485)	(1.650)
210.	Net impairment losses/Reversal on intangible assets	(3.570)	(2.096)
220.	Other operating income/expenses	621.218	3.026
230.	**Operating costs**	**421.160**	**(128.119)**
280.	**Pre-tax profit (loss) for the period from continuing operations**	**720.526**	**245.589**
290.	Income taxes for the year relating to current operations	(32.541)	(83.623)
300.	**Pre-tax profit (loss) from continuing operations**	**687.985**	**161.966**
320.	**Profit (loss) for the period**	**687.985**	**161.966**
330.	Profit (loss) for the year attributable to non-controlling interests	40	-
340.	**Profit (loss) for the year attributable to the Parent Company**	**687.945**	**161.966**

Consolidated Statement of Comprehensive Income

Items (in thousands of Euro)		31.12.2016	31.12.2015
10.	**Profit (loss) for the period**	**687.985**	**161.966**
	Other comprehensive income, net of taxes, without reversal to income statement	**44**	**95**
20.	Property, plant and equipment	-	-
30.	Intangible assets	-	-
40.	Defined benefit plans	44	95
50.	Non-current assets under disposal	-	-
60.	Share of valuation reserves of equity accounted investments	-	-
	Other comprehensive income, net of taxes, with reversal to income statement	**(11.228)**	**5.753**
70.	Foreign investment hedges	-	-
80.	Exchange differences	(1.085)	45
90.	Cash flow hedges	-	-
100.	Available for sale financial assets	(10.143)	5.708
110.	Non-current assets under disposal	-	-
120.	Share of valuation reserves of equity accounted investments	-	-
130.	**Total other comprehensive income, net of taxes**	**(11.184)**	**5.848**
140.	**Total comprehensive income (item 10+130)**	**676.801**	**167.814**
150.	Total consolidated comprehensive income attributable to non-controlling interests	(40)	-
160.	**Total consolidated comprehensive income attributable to the Parent Company**	**676.761**	**167.814**

Statement of Changes in Consolidated Equity at 31 December 2016

	Balance at 31/12/2015	Change in opening balances	Balance at 01/01/2016	Allocation of profit from previous year		Changes occurred during the year									Equity attributable to the Group at 31/12/2016	Equity attributable to non-controlling interests at 31/12/2016
							Equity transactions									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Buyback of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity investments	Comprehensive income for the year 2016		
Share capital:																
a) ordinary shares	53.811	-	53.811	-	-	-	-	-	-	-	-	-	-	-	**53.811**	**-**
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Share premiums	58.900	-	58.900	-	-	36.813	6.063	-	-	-	-	-	-	-	**101.776**	
Reserves:																**-**
a) retained earnings	256.778	-	256.778	121.624	-	-	-	-	-	-	-	-	-	-	**378.402**	**-**
b) other	42.078	-	42.078	-	-	(36.645)	-	-	-	-	-	-	-	-	**5.433**	**8**
Valuation reserves:	5.739	-	5.739	-	-	-	-	-	-	-	-	-	-	(11.184)	**(5.445)**	
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Treasury shares	(5.805)	-	(5.805)	-	-	-	2.618	-	-	-	-	-	-	-	**(3.187)**	**-**
Profit (loss) for the period	161.966	-	161.966	(121.624)	(40.342)	-	-	-	-	-	-	-	-	687.945	**687.945**	**40**
Equity	**573.467**	**-**	**573.467**	**-**	**(40.342)**	**168**	**8.681**	**-**	**-**	**-**	**-**	**-**	**-**	**676.761**	**1.218.735**	**-**
Equity attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**8**	**40**	**-**	**48**

Statement of Changes in Consolidated Equity at 31 December 2015

	Balance at 31/12/2014	Change in opening balances	Balance at 1/1/2015	Allocation of profit from previous year		Changes occurred during the year									Equity attributable to the Group at 31/12/2015	Equity attributable to non-controlling interests at 31/12/2015
							Equity transactions									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Buyback of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity investments	Comprehensive income for the year 2015		
Share capital:																
a) ordinary shares	53.811	-	53.811	-	-	-	-	-	-	-	-	-	-	-	**53.811**	**-**
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Share premiums	57.113	-	57.113	-	-	-	1.787	-	-	-	-	-	-	-	**58.900**	**-**
Reserves:																
a) retained earnings	195.921	-	195.921	60.857	-	-	-	-	-	-	-	-	-	-	**256.778**	**-**
b) other	41.953	-	41.953	-	-	125	-	-	-	-	-	-	-	-	**42.078**	**-**
Valuation reserves:	(109)	-	(109)	-	-	-	-	-	-	-	-	-	-	5.848	**5.739**	**-**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Treasury shares	(6.715)	-	(6.715)	-	-	-	910	-	-	-	-	-	-	-	**(5.805)**	**-**
Profit (loss) for the period	95.876	-	95.876	(60.857)	(35.019)	-	-	-	-	-	-	-	-	161.966	**161.966**	**-**
Equity	**437.850**	**-**	**437.850**	**-**	**(35.019)**	**125**	**2.697**	**-**	**-**	**-**	**-**	**-**	**-**	**167.814**	**573.467**	**-**
Equity attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Consolidated Cash Flow Statement

Indirect method (in thousands of Euro)	31.12.2016	31.12.2015
A. OPERATING ACTIVITIES		
1. Operations	**197.181**	**408.513**
- profit(loss) for the year (+/-)	687.945	161.966
- profit/loss on financial assets held for trading and on financial assets/liabilities at fair value (-/+)	818	-
- profit/loss on hedging activities	-	-
- net impairment losses/reversal on loans (+/-)	59.477	34.250
- net impairment losses/reversal on property, plant, and equipment and intangible assets (+/-)	6.055	3.746
- net allocations to provisions for risks and charges and other expenses/income (+/-)	22.232	248
- unpaid taxes (+)	32.541	83.623
- other adjustments (+/-)	(611.887)	124.680
2. Cash flows generated/absorbed by financial assets	**1.570.097**	**1.204.350**
- Financial assets held for trading	2.330	(259)
- financial assets at fair value	-	-
- available for sale financial assets	2.888.691	1.724.190
- due from banks on demand	(37.401)	30.656
- other due from banks	(1.019.712)	148.835
- loans to customers	(163.170)	(648.079)
- other assets	(100.641)	(50.993)
3 Cash flows generated/absorbed by financial liabilities	**(1.592.051)**	**(1.574.779)**
- due to banks on demand	60.945	25.146
- other due to banks	(2.059.231)	(1.621.128)
- due to customers	(978.006)	3.957
- debt securities issued	1.404.408	-
- financial liabilities held for trading	(2.459)	21
- financial liabilities at fair value	-	-
- other liabilities	(17.708)	17.225
Net cash flows generated/absorbed by operating activities A (+/-)	**175.227**	**38.084**
B. INVESTING ACTIVITIES		
1. Cash flows generated by:	**158**	**93**
- sale of equity investments	-	-
- dividends collected on equity investments	-	-
- sale of held to maturity financial assets	-	
- sale of property, plant and equipment	158	93
- sale of intangible assets	-	-
- sale of business branches	-	-
2. Cash flows absorbed by:	**(143.892)**	**(5.970)**
- purchase of investments	(119.202)	-
- purchase of held to maturity financial assets	-	-
- purchase of property, plant and equipment	(14.421)	(3.261)
- purchase of intangible assets	(10.269)	(2.709)
- purchase of business branches	-	-
Net cash flows generated/absorbed by investment activities B (+/-)	**(143.734)**	**(5.877)**
C. FINANCING ACTIVITIES		
- issue/buyback of treasury shares	8.681	2.697
- issue/buyback of equity instruments	167	125
- distribution of dividends and other	(40.341)	(35.019)
Net cash flows generated/absorbed by financing activities C (+/-)	**(31.493)**	**(32.197)**
NET CASH FLOWS GENERATED /ABSORBED DURING THE YEAR D=A+/-B+/-C	**-**	**10**
RECONCILIATION		
OPENING CASH AND CASH EQUIVALENTS E	**34**	**24**
NET CASH FLOWS GENERATED /ABSORBED DURING THE YEAR D	**-**	**10**
CASH AND CASH EQUIVALENTS: EFFECTS OF CHANGES IN FOREIGN EXCHANGE	**-**	**-**
CLOSING CASH AND CASH EQUIVALENTS G=E+/-D+/-F	**34**	**34**

Notes to the Consolidated Financial Statements

The Notes to the Consolidated Financial Statements are divided into the following parts:

Part A – Accounting policies
Part B – Consolidated statement of financial position
Part C – Consolidated income statement
Part D – Consolidated statement of comprehensive income
Part E – Information on risks and risk management policies
Part F – Consolidated equity
Part G – Business combinations
Part H – Related-party transactions
Part I – Share-based payments
Part L – Segment reporting

Part A - Accounting policies

A.1 – General part

Section 1 – Statement of compliance with international accounting standards

The Consolidated Financial Statements at 31 December 2016 have been drawn up in accordance with the IASs/IFRSs in force at said date issued by the International Accounting Standards Board (IASB), together with the relevant interpretations (IFRICs and SICs). These standards were endorsed by the European Commission in accordance with the provisions in article 6 of European Union Regulation no. 1606/2002. This regulation was implemented in Italy with Legislative Decree no. 38 of 28 February 2005.

Concerning the interpretation and implementation of international accounting standards, the Banca IFIS Group referred to the "Framework for the Preparation and Presentation and Financial Statements", even though it has not been endorsed by the European Commission, as well as the Implementation Guidance, Basis for Conclusions, and any other documents prepared by the IASB or the IFRIC complementing the accounting standards issued.

The accounting standards adopted in preparing these financial statements are those in force at 31 December 2016 (including SIC and IFRIC interpretations).

The Group also considered the communications from Supervisory Authorities (Bank of Italy, Consob, and ESMA), which provide recommendations on the disclosures to include in the financial statements concerning the most material aspects or the accounting treatment of specific transactions.

These Consolidated Financial Statements are subject to certification by the delegated corporate bodies and the Corporate Accounting Reporting Officer, as per article 154 bis paragraph 5 of Italian Legislative Decree no. 58 of 24 February 1998.

The Consolidated Financial Statements are audited by EY S.p.A..

Section 2 – Basis of preparation

The consolidated financial statements consist of:

- the consolidated financial statements (statement of financial position and income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows);
- the Notes to the Consolidated Financial Statements.

In addition, they contain the Directors' Report.

Finally, as per article 123-bis of Italian Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance), the Report on Corporate Governance and Shareholding Structure is available in the "Corporate Governance" Section of the Bank's internet website www.bancaifis.it.

The Consolidated Financial Statements have been drawn up according to the general principles of IAS 1, referring also to IASB's 'Framework for the preparation and presentation of financial statements', with particular attention to the fundamental principles of substance over legal form, the concepts of relevance and materiality of information, and the accruals and going concern accounting concepts.

For the preparation of these Consolidated Financial Statements, reference was made to the format set out by Bank of Italy's Circular no. 262 of 22 December 2005, 4th update of 15 December 2015.

The money of account is the Euro and, if not indicated otherwise, amounts are expressed in thousands of Euro. The tables in the notes may include rounded amounts; any inconsistencies and/or discrepancies in the data presented in the different tables are due to these rounding differences.

The notes do not include the items and tables required by Bank of Italy's Regulation no. 262/2005 where these items are not applicable to the Banca IFIS Group.

Assets and liabilities, as well as costs and revenues, have been offset only if required or permitted by an accounting standard or the relevant interpretation.

We have used the same classification for the items in the financial statements as in the previous financial year.

Information on the business as a going concern

The Bank of Italy, Consob and Isvap, with document no. 2 issued on 6 February 2009 "Disclosure in financial reports on the going concern assumption, financial risks, asset impairment tests and uncertainties in the use of estimations", as well as the subsequent document no. 4 of 4 March 2010, require Directors to assess with particular accuracy the existence of the company as a going concern, as per IAS 1.

In this regard, having examined the risks and uncertainties associated with the present macro-economic context, and considering the financial and economic plans drawn up by the parent company, the Banca IFIS Group can indeed be considered a going concern, in that it can be reasonably expected to continue to operate in the foreseeable future. Therefore, the 2016 Consolidated Financial Statements have been prepared in accordance with this fact.

Uncertainties associated with credit and liquidity risks are considered not significant enough to raise doubts over the company's ability to continue as a going concern, thanks also to the good profitability levels that the Group has consistently achieved, to the quality of its loans, and to its current access to financial resources.

Section 3 - Consolidation scope and method

At 31 December 2016, the Group was composed of the parent company, Banca IFIS S.p.A., the wholly-owned subsidiary, IFIS Finance Sp. Z o. o., the 99,99%-owned subsidiary Interbanca S.p.A. and its subsidiaries IFIS Leasing S.p.A., IFIS Factoring S.r.l., and IFIS Rental Services S.r.l., in which Interbanca owns directly and indirectly all voting rights. All the companies are consolidated using the line-by-line method.

As detailed in Part G of these Notes, Banca IFIS acquired control over the former Interbanca Group on 30 November 2016 after obtaining the authorisation of the competent Supervisory Authorities.

The consolidated financial statements include the financial statements of the parent company Banca IFIS S.p.A. and the mentioned subsidiaries.

The financial statements of the subsidiary IFIS Finance Sp. Z o.o. expressed in foreign currency are translated into Euro by applying the rate of exchange at the end of the period to assets and liabilities. As for the income statement, the items are translated using the average exchange rate, which is considered as a valid approximation of the spot exchange rate. Exchange differences arising from the application of different exchange rates for the statement of financial position and the income statement, as well as the exchange differences from the translation of the investee company's equity, are recognised under capital reserves.

Assets and liabilities, off-balance-sheet transactions, income and expenses, as well as the profits and losses arising from relations between the consolidated companies are all eliminated.

Starting with the financial statements for periods beginning after 1 July 2009, business combinations must be recognised by applying the principles established by IFRS 3; purchases of equity investments in which control is obtained and counting as "business combinations" must be recognised by applying the acquisition method, which requires:

- identification of the acquirer;
- determination of the acquisition date;
- recognition and measurement of the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
- recognition and measurement of goodwill or a gain from a bargain purchase.

As for the subsidiary IFIS Finance Sp. Z o.o., the consolidation process has brought about goodwill for 799 thousand Euro at the period-end exchange rate, recognised under item 130 'Intangible assets'.

As for the subsidiaries of the former Interbanca Group, the consolidated financial statements showed a gain on bargain purchase totalling 623,6 million Euro, which was recognised under Other operating income/expenses.

1. Investments in exclusively controlled companies

Name of the company	Registered office	Head office	Type (1)	Investment		Voting rights % (2)
				Held by	Share %	
IFIS Finance Sp. Z o.o.	Warsaw	Warsaw	1	Banca IFIS S.p.A.	100%	100%
Interbanca S.p.A.	Milan	Milan	1	Banca IFIS S.p.A.	99,99%	99,99%
IFIS Leasing S.p.A.	Mondovì - Province of Cuneo	Mondovì - Province of Cuneo	1	Interbanca S.p.A.	100%	100%
IFIS Factoring S.r.l. (3)	Milan	Milan	1	Interbanca S.p.A.	60%	100%
IFIS Rental Services S.r.l. (4)	Milan	Milan	1	Interbanca S.p.A.	79%	100%
IFIS ABCP Programme S.r.l.	Conegliano - Province of Treviso	Conegliano - Province of Treviso	4	Other	0%	0%
Indigo Lease S.r.l.	Conegliano - Province of Treviso	Conegliano - Province of Treviso	4	Other	0%	0%
Indigo Loan S.r.l.	Conegliano - Province of Treviso	Conegliano - Province of Treviso	4	Other	0%	0%

Key
(1) Type of relationship:
1 = majority of voting rights in the Annual Shareholders' Meeting
2 = dominant influence in the Annual Shareholders' Meeting
3 = agreements with other shareholders
4 = other forms of control
5 = exclusive control as per article 26, paragraph 1, of Legislative Decree no. 87/92
6 = exclusive control as per article 26, paragraph 2, of Legislative Decree no. 87/92
(2) Voting rights in the Annual Shareholders' Meeting, distinguishing between effective and potential voting rights.
(3) The Group owns the remaining 40% through IFIS Leasing S.p.A. – company of the Banking Group 100%-owned directly by Interbanca S.p.A.
(4) The Group owns the remaining 21% through IFIS Leasing S.p.A. – company of the Banking Group 100%-owned directly by Interbanca

2. Significant judgements and assumptions in determining the scope of consolidation

In order to determine the scope of consolidation, Banca IFIS assessed whether it meets the requirements of IFRS 10 for controlling investees or other entities with which it has any sort of contractual arrangements.

An entity controls another entity when the former has all the following:

1. power over the investee;
2. exposure to variable returns;
3. and the ability to affect the amount of its returns.

The assessment carried out led the Bank to include the subsidiaries listed in the previous paragraph, as well as the SPVs (Special Purpose Vehicles) set up for securitisation purposes, in the scope of consolidation at 31 December 2016. These SPVs are not legally part of the Banca IFIS Group.

In addition, there was an unconsolidated structured entity (see part E, section D in these Notes).

Section 4 – Subsequent events

No significant events occurred between year-end and the preparation of these consolidated financial statements other than those already included herein.

For information on such events, please refer to the Directors' report.

Section 5 – Other aspects

Risks and uncertainties related to estimates

Using accounting standards often requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. In making the assumptions underlying the estimates, management considers all available information at the reporting date as well as any other factor deemed reasonable for this purpose.

Specifically, it made estimates on the carrying amounts of some items recognised in the consolidated financial statements at 31 December 2016, as per the relevant accounting standards. These estimates are largely based on the expected future recoverability of the amounts recognised and were made on a going concern basis. Such estimates support the carrying amounts reported at 31 December 2016.

Estimates are reviewed at least annually when preparing the financial statements.

The risk of uncertainty in the estimates, considering the materiality of the reported amounts of assets and liabilities and the judgement required of management, substantially concerns the measurement of:

- fair value of financial instruments not quoted in active markets;
- receivables of the NPL Area;
- receivables managed by the Pharma BU, and specifically the interest on arrears considered recoverable;
- non-performing exposures related to the Trade Receivables, Corporate Banking and Leasing sectors;
- provisions for risks and charges;
- post-employment benefits;
- goodwill and other intangible assets.

For more details, see Information on risks and risk management policies as well as Fair value disclosure.

As for the receivables of the Pharma BU, during 2016 the Bank implemented a new model to estimate the cash flows from receivables due from Italy's National Health Service acquired and managed by the Pharma BU. Specifically, the Bank estimates the interest on arrears considered recoverable from the acquisition date based on historical evidence and differentiating according to the type of collection actions taken by the Pharma BU (settlement or judicial action). Overall, the assumptions underlying the estimate of their recoverability were conservative. Banca IFIS estimates cash flows in accordance with the provisions of the joint Bank of Italy/Consob/Ivass document no. 7 of 9 November 2016 “Accounting of interest on arrears as per Italian Legislative Decree 231/2002 on performing loans purchased outright”. The change in estimated cash flows, discounted using the original IRR of the positions, resulted in a 15,8 million Euro change in amortised cost recognised in profit or loss under interest income.

Concerning specifically the measurement of NPL Area receivables, the risk management, when assessing the Bank's capital adequacy, regularly assesses the so-called model risk by carrying out specific analyses.

Coming into effect of new accounting standards

The consolidated financial statements at 31 December 2016 have been drawn up in accordance with the IASs/IFRSs in force at 31 December 2016. See the paragraph *Statement of compliance with international accounting standards.*

The Group has adopted for the first time some accounting standards and amendments effective for annual periods beginning on or after 1 January 2016. Here below are the new accounting standards and the amendments to existing accounting standards endorsed by the EU, which have not materially affected the Group's consolidated financial statements.

- Amendments to IAS 19 Defined Contribution Plans: Employee Contributions.
- Annual Improvements to IFRSs - 2010-2012 Cycle, which concerned:
    - IFRS 2 Share-based payments; definition of performance and service conditions.
    - IFRS 3 Business Combinations; fair value measurement of contingent consideration arrangements classified as liabilities (or assets).
    - IFRS 8 Operating Segments; reconciliation of the reportable segments’ assets to total assets.
- IAS 24 Related Party Disclosures: definition of an entity providing KMP services as related party.
- Amendments to IFRS 11: accounting for acquisitions of interests in joint operations
- Amendments to IAS 16 and IAS 38: clarification of acceptable methods of depreciation and amortisation
- Amendments to IAS 27: equity method in separate financial statements
- Annual Improvements to IFRSs - 2012- 2014 Cycle, which concerned:
    - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: changes in the method of disposal not considered as a new plan.
    - IFRS 7 Financial Instruments: disclosure of fees in a servicing contract.
    - IAS 19 Employee Benefits: active market for high-quality corporate bonds

- Amendments to IAS 1 Disclosure Initiative.
- Amendments to IFRS 10, IFRS 12 and IAS 28: applying the consolidation exception to investment entities.

The Group has not adopted early any other standard, interpretation or amendment issued but not endorsed by the European Union.

Concerning the new IFRS 9, which will become effective on 1 January 2018, during 2016 the Group conducted an assessment together with a leading audit firm to define the road map for the adoption of the new accounting standard. This assessment did not identify any significant impacts for the Group.

Deadlines for the approval and publication of the separate financial statements

Pursuant to art. 154-ter of Italian Legislative Decree no. 58/98 (Consolidated Law on Finance), the Parent must approve the separate financial statements and publish the Consolidated Annual Financial Report, including the draft separate financial statements, the directors' report, and the declaration as per article 154-bis, paragraph 5, within 120 days of the end of the financial year. The Board of Directors approved the Parent's draft separate financial statements and the consolidated financial statements on 16 March 2017; the Parent's separate financial statements will be submitted to the Shareholders' Meeting to be held on 21 April 2017 on first call for approval.

There were no other changes requiring disclosure as per IAS 8, paragraphs 28, 29, 30, 31, 39, 40 and 49.

A.2 – Main items of the financial statements

1 – Financial assets held for trading

Classification criteria

Financial assets held for trading include financial instruments held with the intention of generating profit from fluctuations in their prices in the short term.

This category includes debt and equity securities and the positive fair value of derivative contracts held for trading. Derivative contracts include those embedded in complex financial instruments that are accounted for separately if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid (combined) instrument is not recognised under financial assets or liabilites held for trading.

Recognition criteria

Financial assets are initially recognised at the date of settlement in the case of debt and equity securities, and at inception in the case of derivative contracts. At initial recognition, financial assets held for trading are measured at cost, that is the instrument's fair value, excluding the expenses and income directly attributable to the instrument, which are recognised in profit or loss. The implied derivative component in structured instruments that is not closely related to the host contract and meets the definition of a derivative instrument is separated from the host contract and measured at fair value, while the host contract is recognised using the relevant accounting policy.

Measurement criteria

Also subsequent to initial recognition, financial assets held for trading are measured at fair value.

The fair value of the financial instruments included in this portfolio is calculated based on quoted prices in active markets, prices provided by market participants, or internal valuation models generally used for pricing financial instruments that take into account all relevant risk factors and are based on observable market data.

Specifically, the instruments included in this item are unquoted derivative instruments measured using generally accepted valuation models based on market inputs. As for the counterparty risk associated with derivatives outstanding with Corporate counterparties, the performing portfolio is measured using PD and LGD inputs on which the collective assessment of receivables is based, while the non-performing portfolio is assessed individually.

Derecognition criteria

Financial assets held for trading are derecognised exclusively when all relevant risks and rewards have been transferred. Should the company retain part of the relevant risks and rewards, the financial assets will continue to be recognised, even though legal ownership has been actually transferred to a third party.

Where it is not possible to ascertain the substantial transfer of the risks and rewards, financial assets are derecognised if the company no longer has control over them. Otherwise, the financial assets are recognised proportionally to the entity’s continuing involvement in the asset, measured according to the exposure to changes in the transferred assets’ value and cash flows.

Lastly, as for the transfer of collection rights, transferred financial assets are derecognised even if contractual rights to receive cash flows are maintained but an obligation to pay such flows to one or more companies is taken on.

2 – Available for sale financial assets

Classification criteria

These are financial assets not classified as loans and receivables, held-to-maturity investments, or financial assets held for trading. They can fall under available-for-sale financial investments, money market securities, other debt instruments and equity securities.

Recognition criteria

Available for sale financial assets are initially recognised at fair value, i.e. the cost of the operation including transaction costs directly attributable to the instrument, if any.

For interest-bearing instruments, interest is recognised at amortised cost, using the effective interest method.

Measurement criteria

Subsequent to their initial recognition, these investments are measured at their year-end fair value. The fair value is calculated based on the same criteria as those used for financial assets held for trading. Gains and losses resulting from changes in fair value are recognised under a dedicated equity reserve until the financial asset is transferred: then, accrued profits and losses are recognised in profit or loss. Changes in fair value recognised in the item “valuation reserve” are also included in the statement of comprehensive income under item 100 “Available for sale financial assets”.

If there is objective evidence that the asset is permanently impaired, the accrued loss recognised directly to equity is transferred to profit or loss. The total amount of this loss is equal to the difference between the carrying amount (acquisition cost, net of any impairment losses previously recognised in the income statement) and the fair value.

As for debt instruments, any circumstances indicating that the borrower is experiencing financial difficulties that could undermine the collection of the principal or interests represent a permanent impairment loss.

As far as equity instruments are concerned, the existence of impairment losses is assessed on the basis of indicators such as fair value falling below cost and adverse changes in the environment in which the company operates, as well as the issuer’s debt servicing difficulties. A significant or lasting fall in the fair value of an equity instrument below its cost is considered objective evidence of an impairment loss. The impairment loss is considered significant if the fair value falls by more than 20% below cost, and is considered lasting if it persists for more than 9 months.

If, at a later date, the fair value of a debt instrument increases and such an increase can be objectively related to an event occurring after the period in which the impairment loss was recognised in profit or loss, the impairment loss is reversed, recognising the corresponding amount in profit or loss.

As for equity securities, instead, if the grounds for impairment no longer exist, the impairment losses are later reversed through equity.

Derecognition criteria

Available for sale financial assets are derecognised exclusively when all relevant risks and rewards have been transferred. Should the company retain part of the relevant risks and rewards, the financial assets will continue to be recognised, even though legal ownership has been actually transferred to a third party.

Where it is not possible to ascertain the substantial transfer of the risks and rewards, financial assets are derecognised if the company no longer has control over them. Otherwise, the financial assets are recognised proportionally to the entity’s continuing involvement in the asset, measured according to the exposure to changes in the transferred assets’ value and cash flows.

Lastly, as for the transfer of collection rights, transferred financial assets are derecognised even if contractual rights to receive cash flows are maintained but an obligation to pay such flows to one or more companies is taken on.

4 - Loans and receivables

Classification criteria

Receivables include loans to customers and banks with fixed or determinable payment dates and not traded on an active market.

Receivables due from customers largely consist of:

- demand advances to customers as part of factoring operations vis-à-vis a receivables portfolio factored with recourse and still recognised in the seller's statement of financial position, or vis-à-vis receivables factored without recourse, providing no contractual clauses that eliminate the conditions for their recognition exist.
- distressed retail loans acquired from banks and retail lenders;
- tax receivables resulting from insolvency proceedings;
- repurchase agreements;
- receivables arising from finance leases;
- securities acquired through subscription or private placement, with fixed or determinable payments, not quoted in active markets.

Distressed retail loans, due to their nature, are classified as either unlikely to pay or bad loans according to the criteria established in Circular 272/2008, which sets out the rules for reporting on supervisory, statistical, and financial matters as well as prudential capital ratios, and Circular 139/1991, relating to the Central Credit Register. In particular, those loans maintain the same classification as that assigned by the invoice seller, provided the latter is subject to the same law as Banca IFIS: otherwise, if the Bank has not ascertained the debtor's state of insolvency, those loans are classified as unlikely to pay.

Recognition criteria

Receivables are initially recognised at the date they are granted and/or acquired at fair value, or, in the case of a debt security, the date of settlement, based on the fair value of the financial instrument, which is equal to the amount granted or the subscription price, including transaction costs. Transaction costs are incremental costs that are directly attributable to the acquisition or granting of loans and determinable right from the beginning of the transaction, even if settled at a later date. Incremental costs are those costs that the company would not have incurred had it not acquired or granted the loan. Costs meeting these characteristics, but to be reimbursed by the debtor or falling under normal internal administrative costs, are excluded.

When the net amount granted does not correspond to the asset's fair value because the interest rate applied was lower than the market rate or the rate usually applied to loans with similar characteristics, loans and receivables are initially recognised at an amount equal to the discounting of future cash flows using a market rate. The difference compared to the amount granted or the subscription price is recognised directly in profit or loss.

Contango contracts and repurchase agreements are recognised as funding or lending transactions. Specifically, repurchase agreements are recognised as payables for the amount received, while reverse repurchase agreements are recognised as receivables for the amount paid.

Measurement criteria

After initial recognition, receivables are measured at amortised cost, which is equal to the initial amount minus/plus reimbursements of principal, impairment losses/reversals of impairment losses, and amortisation calculated using the effective interest method. The effective interest rate is calculated as the rate at which the present value of expected cash flows for the principal and interest is equal to the amount of the loan granted, including any directly attributable costs/revenues. This finance-based accounting method allows to spread the economic effect of costs/revenues over the expected residual life of the receivable.

The amortised cost method usually does not apply to short-term loans, as the effect of discounting would be immaterial. These are measured instead at their acquisition cost. A similar criterion applies to loans without a definite payment date or revocable loans. Furthermore, newly acquired distressed retail loans are measured at cost until the Bank has started taking action to collect the debt, as specified later on in the part concerning non-performing exposures in the NPL Area sector.

At the end of every reporting period, including interim periods, receivables are reviewed in order to identify those objectively at risk of impairment following events occurred after their initial recognition. In accordance with both the Bank of Italy's regulations and IASs, bad loans, unlikely to pay, and past due exposures fall into this category.

In the notes, impairment losses on loans are classified as individual impairment losses in the mentioned income statement item even under a lump-sum calculation method.

As for the **non-performing exposures included in the trade receivables sector**, they were measured according to the following criteria.

Bad loans are individually evaluated, and the total amount of the impairment loss on each loan is equal to the difference between the carrying amount at measurement (amortised cost) and the present value of expected future cash flows, calculated by applying the effective interest method at the moment in which the loan went bad. Expected cash flows are calculated taking into account expected recovery times based on historical elements and other significant characteristics, as well as the estimated realisable value of guarantees, if any.

Each subsequent change in the amount or maturities of expected cash flows causing a negative change from the initial estimates results in the recognition of an impairment loss in profit or loss.

If the quality of a non-performing exposure improves and there is reasonable certainty of a timely recovery of both principal and interest, in keeping with the relevant initial terms and conditions, the impairment loss is reversed through profit and loss to a value not higher than the amortised cost that would have been incurred if no impairment loss had been recognised.

Outstanding gross loans below 100 thousand Euro as well as those above 100 thousand Euro which went bad over 10 years prior to the reporting date are written down to zero.

Unlikely to pay loans amounting to more than 100 thousand Euro are evaluated individually; the write-down to each loan is equal to the difference between the amount recognised in the balance sheet at the time of recognition (amortised cost) and the current value of expected future cash flows, calculated using the original effective interest rate or, in case of indexed rates, the last contractually applied rate. If the individual evaluation does not indicate any impairment, they are collectively tested for impairment.

Unlikely to pay loans amounting to less than 100 thousand Euro are collectively tested for impairment.

Non-performing past due exposures, as defined by the Bank of Italy, are collectively tested for impairment. Such measurement applies to categories of loans with a homogeneous credit risk. The relevant losses are estimated as a percentage of the original loan amount by taking into account historical time series based on observable market data existing at the time of measurement and allowing to calculate the latent losses for each category.

Performing loans are collectively tested for impairment. Such measurement applies to categories of loans with a homogeneous credit risk. The relevant losses are estimated as a percentage of the original loan amount by taking into account historical time series based on observable market data existing at the time of measurement and allowing to calculate the latent losses for each category.

Non-performing exposures included in the NPL Area sector are recognised and assessed through the following steps:

1. at the time of purchase, receivables are recognised by allocating the portfolio's purchase price among the individual receivables it consists of through the following steps:
   - recognition of the individual receivables at a value equal to the contract price, which is used for the purposes of reporting to the Central Credit Register;
   - after verifying the documentation, if provided in the contract, the Bank returns the loans lacking documentation or beyond the statute of limitations to the seller, and measures the fair value of receivables which actually exist and can be collected; finally, after sending a notice of assignment to the debtor, the Bank can start taking action to collect the receivable;
2. once the collection process begins, receivables are measured at amortised cost using the effective interest rate method;
3. the effective interest rate is calculated on the basis of the price paid, the transaction costs, if any, and the estimated cash flows and collection time calculated using either a proprietary model (point 5), or analytical estimates made by managers;
4. the effective interest rate as set out in the previous point is unchanged over time;
5. The proprietary model estimates cash flows by projecting the “breakdown” of the nominal amount of the receivable “over time” based on the historical recovery profile for similar clusters. In addition, for the positions with funding characteristics, the Bank uses a “deterministic” model based on the measurement of the future instalments of the settlement plan, net of the historical default rate;
6. at the end of each reporting period, interest income accrued on the basis of the original effective interest rate is recognised under Interest Income. Said interest is calculated as follows: Amortised Cost at the beginning of the period x IRR/365 x days in the period;
7. in addition, at the end of each reporting period, the expected cash flows for each position are re-estimated;
8. should events occur (higher or lower revenues realised or expected compared to forecasts and/or a change in collection times) which cause a change in the amortised cost (calculated by discounting the new cash flows at the original effective rate compared to the amortised cost in the period), this change is also recognised under Interest Income;

9. in case of impairment events, the changes in the amortised cost (calculated by discounting the new cash flows at the original effective interest rate compared to the period's amortised cost) are recognised under item 130 Net impairment losses/reversals on receivables; if an impairment loss had already been recognised, reversals can be recognised up to the amount of said impairment loss, recognising the surplus under Interest Income.

Tax receivables are classified under performing loans, since they are due from the Public Administration.

As for the **non-performing exposures included in the Corporate Banking and Leasing sectors**, they were measured according to the following criteria.

Non-performing loans are individually evaluated, and the total amount of the impairment loss on each loan is equal to the difference between the carrying amount at measurement (amortised cost) and the present value of expected future cash flows, calculated by applying the original effective interest rate. Expected cash flows are calculated taking into account the expected recovery times, the estimated realisable value of guarantees, if any, and the costs expected to be incurred to recover the exposure.

The original effective interest rate of each loan does not change over time even if a restructuring involved changing the contractual rate or the loan no longer bears contractual interest in practice. Any impairment loss is recognised in profit or loss. The impairment loss is reversed in the following years to the extent that the reason for the impairment no longer exists, provided this assessment can be related objectively to an event occurring after the impairment was recognised. The reversal is recognised in profit or loss and shall not exceed the amortised cost that the loan would have had if the impairment had not been recognised.

The restructuring of non-performing exposures by converting them in full or in part into shares in the borrowing firms is measured based on the fair value of the shares received in exchange for the receivable, in accordance with IFRIC 19; such shares are measured at fair value using the methods for equity investments based on their classification for accounting purposes.

For other renegotiations, the Bank derecognises the receivable and recognises a new financial asset if the changes in contractual terms are material.

Restructuring procedures concern loans to customers in financial distress for which the renegotiation resulted in a financial loss for the Bank; in this case, the specific write-down is calculated based on the original interest rate.

The loans for which there is no individual objective evidence that an impairment loss has been incurred, i.e. performing loans, including those to counterparties in high-risk countries, are collectively tested for impairment. Such measurement applies to categories of loans with a homogeneous credit risk. The relevant losses are estimated as a percentage of the original loan amount by taking into account historical time series based on observable market data existing at the time of measurement and allowing to calculate the latent losses for each category. Collective impairment losses are recognised in profit or loss.

At each reporting date, any additional impairment losses or reversals are calculated on a differential basis relative to the entire portfolio of performing receivables at the same date.

Derecognition criteria

A receivable is entirely derecognised when it is considered unrecoverable. Derecognitions are directly recorded under net impairment losses on receivables and are recognised as a reduction of the principal.

Partial or complete reversals of previous impairment losses are recognised as a reduction of net impairment losses on receivables.

Sold or securitised financial assets are derecognised exclusively when all relevant risks and rewards have been transferred. Should the company retain part of the relevant risks and rewards, the financial assets will continue to be recognised, even though legal ownership has been actually transferred to a third party.

In such cases, a financial liability is recognised for an amount equal to the consideration received.

If some, but not all, the risks and rewards have been transferred, financial assets are derecognised only if the company no longer has control over them. Otherwise, the financial assets are recognised proportionally to the entity's continuing involvement in them.

Finally, as for the transfer of collection rights, transferred financial assets are derecognised even if contractual rights to receive cash flows are maintained but an obligation to pay such flows to one or more entities is taken on.

8 - Property, plant and equipment and investment property

Classification criteria

The item includes tangible assets used in operations and those held for investment. It also includes those acquired under finance leases.

All property (either fully owned or leased) held by the company for the purposes of obtaining rent and/or a capital gain fall under investment property.

All property (either fully owned or leased) held by the company for business and expected to be used for more than one fiscal year fall under property for functional use.

Property, plant and equipment for functional use include:

- land
- buildings
- furniture and accessories
- electronic office machines
- various machines and equipment
- vehicles
- leasehold improvements on third-party property

Those are physical assets held for use in production, in providing goods and services or for administrative purposes, and that are expected to be used for more than one fiscal year.

This item also includes assets used as a lessee under lease contracts.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee.

Leasehold improvements on third-party property are improvements and expenses relating to identifiable and separable asset. Normally, this kind of investment is sustained in order to make a property rented from third parties suitable for use.

Recognition criteria

Property, plant and equipment and investment property are initially recognised at cost, including all directly attributable costs connected to the acquisition or to bring the asset into use.

Subsequently incurred expenses are added to the carrying amount of the asset, or recognised as separate assets, if they are likely to yield future economic benefits exceeding those initially estimated and if the cost can be measured reliably; otherwise, they are recognised in profit or loss.

Measurement criteria

Property, plant and equipment and investment property are measured at cost, net of any depreciation or impairment losses.

Property, plant and equipment and investment property with a finite useful life are systematically depreciated on a straight-line basis over their useful life.

Property, plant and equipment and investment property with an indefinite useful life, whose residual value is equal to or higher than their carrying amount, are not depreciated.

For accounting purposes, land and buildings are treated separately, even when acquired together. Land is not depreciated, as it has an indefinite useful life. Where the value of land is included in the value of a building, the former is considered separately by applying the component approach. The separate values of the land and the building are calculated by independent experts in this field and only for entirely owned properties.

The useful life of property, plant and equipment and investment property is reviewed at the closure of each period and, if expectations are not in line with previous estimates, the depreciation rate for the current period and subsequent ones is adjusted.

If there is objective evidence that an individual asset may be impaired, the asset's carrying amount is compared to its recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use, intended as the present value of future cash flows expected to arise from this asset. Any impairment loss is recognised in profit or loss.

When an impairment loss is reversed, the new carrying amount cannot exceed the net carrying amount that would have been measured if no impairment loss had been recognised on the asset in previous years.

The usually estimated useful lives are the following:

- buildings: not exceeding 34 years
- furniture: not exceeding 7 years.
- Electronic systems: not exceeding 3 years
- other: not exceeding 5 years.
- Improvements on third party property/leasehold improvements: not exceeding 5 years

Derecognition criteria

Property, plant and equipment and investment property are derecognised from the statement of financial position on disposal or when they are withdrawn from use and no future economic benefits are expected from their disposal.

9 - Intangible assets

Classification criteria

Intangible assets are non-monetary assets, identifiable even though they lack physical substance, that meet the requirements of identifiability, control over a resource and existence of future economic benefits. Intangible assets mainly include goodwill and software.

Recognition criteria

Intangible assets are recognised in the statement of financial position at cost, i.e. the purchase price and any direct cost incurred in preparing the asset for use.

Goodwill is represented by the positive difference between the acquisition cost and the fair value of the acquiree's assets and liabilities and when such positive difference is representative of the capacity to generate returns in the future.

Measurement criteria

Intangible assets with a finite useful life are systematically amortised according to their estimated useful life.

If there is objective evidence that a single asset may be impaired, the asset's carrying amount is compared to its recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use, intended as the present value of future cash flows expected to arise from this asset. Any impairment loss is recognised in profit or loss.

Intangible assets with an indefinite useful life are not amortised. The carrying amount is compared with the recoverable amount at least on an annual basis. If the carrying amount is greater than the recoverable amount, a loss equal to the difference between the two amounts is recognised in profit or loss.

Should the impairment of an intangible asset (excluding goodwill) be reversed, the increased net carrying amount cannot exceed the net carrying amount that would have been measured if no impairment loss had been recognised on the asset in previous years.

Goodwill is recognised in the statement of financial position at cost, net of any accrued losses, and is not subject to amortisation. Goodwill is tested for impairment at least annually by comparing its carrying amount to its recoverable amount. To this end, goodwill must be allocated to cash-generating units (CGUs) in compliance with the maximum combination limit that cannot exceed the "operating segment" identified for internal management purposes.

The impairment loss, if any, is calculated based on the difference between the carrying amount of the CGU plus its recoverable amount, which is the higher of the CGU's fair value less costs to sell and its value in use.

The amount of any impairment losses is recognised in profit or loss and is not derecognised in the following years should the reason for the impairment be no longer valid.

Derecognition criteria

An intangible asset is derecognised from the statement of financial position on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal.

11 – Current and deferred taxes

Classification criteria

Current and deferred taxes, calculated in compliance with national tax laws, are recognised in profit or loss with the exception of items directly credited or debited to equity.

Current tax liabilities are shown in the statement of financial position net of the relevant tax advances paid for the current period.

Deferred tax assets and liabilities are recognised in the statement of financial position at pre-closing balances and without set-offs, and are included in the items ‘tax assets’ and ‘tax liabilities’, respectively.

Recognition and measurement criteria

Deferred tax assets and liabilities are calculated based on temporary differences—without time limits—between the value attributed to the asset or liability according to statutory criteria and the corresponding tax base, applying the tax rates expected to be applicable for the year in which the tax asset will be realised, or the tax liability will be settled, according to theoretical tax laws in force at the realisation date.

Deferred tax assets are entered in the statement of financial position according to the likelihood of their recovery, calculated on the basis of the company’s (or, due to tax consolidation, the parent company’s) ability to continue to generate positive taxable income.

Deferred tax liabilities are entered in the statement of financial position, with the sole exception of the tax-relieved major assets represented by strategic investments not expected to be sold and reserves, as it can be safely assumed that operations giving rise to their taxation will be avoided, based on the amount of already taxed available reserves.

12 – Provisions for risks and charges

These provisions consist of liabilities arising when:

- a legal or constructive obligation exists as a result of a past event;
- it is likely that it will be necessary to spend resources which could generate economic benefits to settle the obligation;
- the amount of the obligation can be reliably estimated.

Should all these conditions not be met, no liability is recognised.

The amount recognised as a provision represents the best estimate of the expense required to meet the obligation and reflects the risks and uncertainties regarding the facts and circumstances in question.

Where the cost deferral is significant, the amount of the provision is determined as the present value of the best estimate of the cost to settle the obligation. In this case a discount rate is used that reflects current market assessments.

The provisions made are periodically reviewed and, if necessary, adjusted to reflect the best current estimate. When the review finds that the cost is unlikely to be incurred, the provision is reversed.

13 – Payables and outstanding securities

Classification criteria

Payables due to banks and customers and outstanding securities include the various forms of interbank funding, as well as funding from customers and through outstanding bonds, net of any buybacks.

In addition, payables incurred by the lessee as part of finance lease transactions are also included.

Recognition criteria

Payables due to banks and customers and outstanding securities are initially recognised at their fair value, which is equal to the consideration received, net of transaction costs directly attributable to the financial liability.

Measurement criteria

After initial recognition at fair value, these instruments are later measured at amortised cost, using the effective interest method.

Compound debt instruments, connected to equity instruments, foreign currencies, credit instruments or indexes are all considered structured instruments. The embedded derivative is split from the host contract and accounted for separately if the criteria for splitting are met. The embedded derivative is recognised at its fair value and then measured. Any fair value changes are recognised in profit or loss.

The value corresponding to the difference between the total collected amount and the fair value of the embedded derivative is attributed to the host contract and then measured at amortised cost.

Instruments convertible into newly issued treasury shares are considered as structured instruments and imply the recognition, at the date of issue, of a financial liability and an equity component.

The instrument's residual value, resulting from the deduction from its overall value of the value separately calculated for a financial liability without conversion clause with the same cash flows, is attributed to the equity component.

The financial liability is recognised net of directly attributable transaction costs and later measured at amortised cost using the effective interest method.

Derecognition criteria

Financial liabilities are derecognised when they expire or are settled. The difference between the carrying amount and the acquisition cost is recognised in profit or loss.

Liabilities are derecognised also when previously issued securities are bought back, even if such instruments will be sold again in the future. Gains and losses from such derecognition are recognised in profit or loss when the buyback price is higher or lower than the carrying amount.

Subsequent sales of the company's own bonds on the market are considered as an issuance of new debt.

14 – Financial liabilities held for trading

Classification criteria

Financial liabilities held for trading refer to derivative contracts that are not hedging instruments.

Recognition criteria

At initial recognition, financial liabilities held for trading are recognised at fair value.

Measurement criteria

Also subsequent to initial recognition, financial liabilities held for trading are measured at fair value at the reporting date. The fair value is calculated based on the same criteria as those used for financial assets held for trading.

Derecognition criteria

Financial liabilities held for trading are derecognised when they are settled or when the obligation is fulfilled, cancelled or expired. The difference arising from their derecognition is recognised in profit or loss.

16 – Foreign currency transactions

Initial recognition

At initial recognition, foreign currency transactions are recognised in the money of account, applying the exchange rate at the date of the transaction.

Subsequent recognitions

At each reporting date, including interim periods, foreign currency monetary items are translated using the closing rate.

Non-monetary assets and liabilities recognised at historical cost are translated at the historical exchange rate, while those measured at fair value are translated using the year-end rate. Any exchange differences arising from the settlement of monetary elements or their translation at exchange rates different from those used at initial recognition or in previous financial statements are recognised in profit or loss in the period in which they arise, excluding those relating to available for sale financial assets, as they are recognised in equity.

18 - Other information

Post-employment benefits

Pursuant to IAS 19 'Employee benefits' and up to 31 December 2006, the so-called 'TFR' post-employment benefit for employees of the Group's Italian companies was classified as a defined benefit plan. The Group had to recognise this benefit by discounting it using the projected unit credit method.

Following the coming into force of the 2007 Budget Law, which brought the reform regarding supplementary pension plans—as per Legislative Decree no. 252 of 5 December 2005 —forward to 1 January 2007, the employee was given a choice as to whether to allocate the post-employment benefits earned as from 1 January 2007 to supplementary pension funds or to maintain them in the company, which would then transfer it to a dedicated fund managed by INPS (the Italian National Social Security Institute).

This reform has led to changes in the accounting of such benefits as for both the benefits earned up to 31 December 2006 and those earned from 1 January 2007.

In particular:

- benefits earned as from 1 January 2007 constitute a defined-contribution plan, regardless of whether the employee has chosen to allocate them to a supplementary pension fund or to INPS's Treasury Fund. Those benefits shall be calculated according to contributions due without applying actuarial methods;

- benefits earned up to 31 December 2006 continue to be considered as a defined-benefit plan, and as such are calculated on an actuarial basis which, however, unlike the calculation method applied until 31 December 2006, no longer requires that the benefits be proportionally attributed to the period of service rendered: the employee's service is considered entirely accrued due to the change in the accounting nature of benefits earned as from 1 January 2007.

Actuarial gains/losses shall be included immediately in the calculation of the net obligations to employees through equity, to be reported in other comprehensive income.

Share-based payments

They are payments granted to employees or similar parties as remuneration for the services received that are settled in equity instruments.

The relevant international accounting standard is IFRS 2 – Share-based payments; specifically, since the Bank is to settle the obligation for the service received in equity instruments (shares “to the value of”, i.e. a given amount is converted into a variable number of shares based on the fair value at grant date), those payments fall under “equity-settled share-based payments”.

As a general rule, IFRS 2 requires entities to recognise share-based payment transactions as personnel expenses, with a corresponding increase in equity; the cost is amortised on a straight-line basis over the vesting period.

Treasury shares

Pursuant to regulations in force in Italy, buying back treasury shares requires a specific resolution of the shareholders' meeting and the recognition of a specific reserve in equity. Treasury shares in the portfolio are deducted from equity and measured at cost, calculated using the “Fifo” method. Differences between the purchase price and the selling price deriving from trading in these shares during the accounting period are recognised under equity reserves.

Recognition of income and costs

Income from management and guarantee services for receivables purchased through factoring activities are recognised under commission income according to their duration. Components considered in the amortised cost to calculate the effective interest rate are excluded and recognised instead under interest income.

Costs are recognised on an accrual basis. Concerning the costs of NPL Area segment, the costs incurred upfront for non-judicial debt collection operations through settlement plans, as well as legal expenses and registration fees for judicial debt collection operations, are recognised in profit or loss under “Other administrative expenses” in the period in which the positive impact of the relevant receivables deriving from the change in the underlying cash flows associated with the plans entered into or the court orders obtained is recognised in profit or loss.

Dividends

Dividends are recognised in profit or loss in the year in which the resolution concerning their distribution is passed.

Repurchase agreements

Securities received as a result of transactions that contractually require they are subsequently sold, as well as securities delivered as a result of transactions that contractually require they are subsequently repurchased, are not recognised in and/or derecognised from the financial statements.

Consequently, in cases of securities acquired under a repurchase agreement, the amount paid is recognised as due from customers or banks, or as a financial asset held for trading; and in cases of securities sold under a repurchase agreement, the liability is entered under payables due to banks or customers, or under financial liabilities held for trading. Income from these commitments, made up of the coupons matured on the securities and of the difference between their spot price and their forward price, is recognised under interest income in profit or loss.

The two types of transactions are offset if, and only if, they have been carried out with the same counterparty and if such offsetting is contractually envisaged.

Amortised cost

The amortised cost of a financial asset or liability is its amount upon initial recognition, net of any principal repayments, plus or minus the overall amortisation of the difference between the initial and the maturity value calculated using the effective interest method, and deducting any impairment losses.

The effective interest method is a method of spreading interest income or interest expense over the duration of a financial asset or liability. The effective interest rate is the rate that precisely discounts expected future payments or cash flows over the life of the financial instrument at the net carrying amount of the financial asset or liability. It includes all the expenses and basis points paid or received between the parties to a contract that are an integral part of such rate, as well as the transaction costs and all other premiums or discounts.

Commissions considered an integral part of the effective interest rate are the initial commissions received for selling or buying a financial asset not classified as measured at fair value: for example, those received as remuneration for the assessment of the debtor's financial situation, for the assessment and the registration of sureties and, in general, for completing the transaction.

Transaction costs, in turn, include fees and commissions paid to agents (including employees that act as sales agents), advisors, brokers and dealers, levies charged by regulatory bodies and stock exchanges, and transfer taxes and duties. Transaction costs do not include financing, internal administration or operating costs.

A.4 – Fair value disclosure

Qualitative disclosure

Fair value is the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date, under current market conditions (i.e. the exit price), regardless of the fact that said price is directly observable or that another measurement approach is used.

IFRS 13 establishes a fair value hierarchy based on the extent to which inputs to valuation techniques used to measure the underlying assets/liabilities are observable. Specifically, the hierarchy consists of three levels.

- Level 1: the instrument's fair value is measured based on quoted prices in active markets.
- Level 2: the instrument's fair value is measured based on valuation models using inputs observable in active markets, such as:
  a) quoted prices for similar assets or liabilities;
  b) quoted prices for identical or similar assets or liabilities in non-active markets;
  c) observable inputs such as interest rates or yield curves, implied volatility, default rates and illiquidity factors;
  d) inputs that are not observable but supported and confirmed by market data.
- Level 3: the instrument's fair value is measured based on valuation models using mainly inputs that are unobservable in active markets.

Each financial asset or liability of the Bank is categorised in one of the above levels, and the relevant measurements may be recurring or non-recurring (see IFRS 13, paragraph 93, letter a).

The choice among the valuation techniques is not optional, since these shall be applied in a hierarchical order: indeed, the fair value hierarchy gives the highest priority to (unadjusted) quoted prices available in active markets for identical assets or liabilities (Level 1 data) and the lowest priority to unobservable inputs (Level 3 data).

Valuation techniques used to measure fair value are applied consistently on an on-going basis.

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

In the absence of quoted prices in an active market, the fair value measurement of a financial instrument is performed using valuation techniques maximising the use of inputs observable on the market.

The use of a valuation technique is intended to estimate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, under current market conditions. In this case, the fair value measurement may be categorised in Level 2 or Level 3, according to what extent inputs to the pricing model are observable.

In the absence of observable prices in an active market for the financial asset or liability to be measured, the fair value of the financial instruments is measured using the so-called "comparable approach" (Level 2), requiring valuation models based on market inputs.

In this case, the valuation is not based on the quoted prices of the financial instrument being measured (identical asset), but on prices, credit spreads or other factors derived from the official quoted prices of instruments that are substantially similar in terms of risk factors and duration/return, using a given calculation method (pricing model).

In the absence of quoted prices in an active market for a similar instrument, or should the characteristics of the instrument to be measured not allow to apply models using inputs observable in active markets, it is necessary to use valuation models assuming the use of inputs that are not directly observable in the market and, therefore, requiring to make estimates and assumptions (non observable input - Level 3). In these cases, the financial instrument is measured using a given calculation method that is based on specific assumptions regarding:

- the trend in future cash flows, possibly contingent on future events whose probability of occurring can be derived from historical experience or based on behavioural assumptions;
- the level of specific inputs not quoted in active markets: for the purposes of estimating them, information acquired from prices and spreads observed in the market shall have a higher priority. If these are not available, entities shall use historical data about the specific underlying risk factor or specialist research on the matter (e.g. reports by ratings agencies or primary market players).

In the cases described above, entities may make valuation adjustments taking into account the risk premiums considered by market participants in pricing instruments. If not explicitly considered in the valuation model, valuation adjustments may include:

- model adjustments: adjustments that take into account any deficiencies in the valuation models highlighted during calibration;
- liquidity adjustments: adjustments that take into account the bid-ask spread if the model calculates a mid price;
- credit risk adjustments: adjustments related to the counterparty or own credit risk;
- other risk adjustments: adjustments related to a risk premium “priced” in the market (e.g. relating to the complexity of valuation of an instrument).

The trade receivables portfolio measured at fair value consists of the on-balance-sheet exposures classified as performing with a residual life exceeding one year (medium-long term[8]). Therefore, all exposures classified as in Default, the ones with a residual life less than one year, and unsecured loans are excluded from the valuation.

For the purposes of measuring performing trade receivables[9] at fair value, given the absence of prices directly observable in active and liquid markets, entities shall use valuation techniques based on a theoretical model meeting the requirements of IASs/IFRSs (Level 3). The approach used to determine the fair value of receivables is the Discounted Cash Flow Model, i.e. the discounting of expected future cash flows at a risk free rate for the same maturity, increased by a spread representative of the counterparty’s risk of default.

Following Banca IFIS's acquisition of the former GE Capital Interbanca group, the application of IFRS 3 required measuring the acquired entities’ portfolios of loans to customers at fair value. The Purchase Price Allocation (PPA) process and the relevant adjustments made to the portfolios (if required) are categorised in level 2 of the fair value hierarchy.

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[8] For short-term receivables, the book value is considered representative of fair value.

9 Including factoring receivables acquired from the former GE Interbanca Group

As for the receivables portfolio of the NPL Area, which purchases and manages non-performing receivables mainly due from individuals, the Discounted Cash Flow Model is used to calculate fair value. In this case, the expected net cash flows are discounted at a market rate. The market rate is calculated without considering a credit spread, since the credit risk of the individual counterparties is already incorporated in the statistical model used to estimate future cash flows with regard to collective management (non-judicial operations). The model projects the relevant cash flows based on historical evidence concerning the recovery of positions in the Bank's portfolio. As for individual management (judicial operations), the projections of future cash flows are based on an internal algorithm or defined by the manager according to how the underlying receivable is being processed. As for acquired tax receivables, the Bank believes their amortised cost can be used as an approximation of fair value. The only element of uncertainty concerning these receivables due from tax authorities is the time required for collecting them; currently, there are no significant differences in the time it takes for the tax authorities to repay their debts. It should also be noted that Banca IFIS is one of the leading players in this operating segment, which makes it a price maker in the case of sales.

In general, for the purposes of the Level 3 fair value measurement of assets and liabilities, reference is made to:

- market rates calculated, according to market practice, using either money market rates for maturities less than one year, and swap rates for greater maturities, or the rates quoted in the market for similar transactions;
- Banca IFIS’s credit spread, which, since there are no bond issuances to be used as a reference, was calculated using bond issuances of counterparties considered equivalent as a reference;
- financial statements and information from business plans.

A.4.2 Measurement processes and sensitivity

In compliance with IFRS 13, for fair value measurements categorised within level 3, the Group tests their sensitivity to changes in one or more unobservable inputs used in the fair value measurements. Specifically, a negligible amount of the Group's financial assets measured at fair value are categorised within level 3, except for NPL Area receivables.

A.4.3. Fair value hierarchy

Concerning recurring fair value measurements of financial assets and liabilities, the Banca IFIS Group transfers them between levels of the hierarchy based on the following guidelines.

Debt securities are transferred from level 3 to level 2 when the inputs to the valuation technique used are observable at the measurement date. The transfer from level 3 to level 1 is allowed when it is confirmed that there is an active market for the instrument at the measurement date. Finally, they are transferred from level 2 to level 3 when some inputs relevant in measuring fair value are not directly observable at the measurement date.

Equity securities classified as available for sale financial assets are transferred between levels when:

- observable inputs became available during the period (e.g. prices for identical assets and liabilities defined in comparable transactions between independent and knowledgeable parties). In this case, they are reclassified from level 3 to level 2;

- inputs directly or indirectly observable used in measuring them are no longer available or current (e.g. no recent comparable transactions or no longer applicable multiples). In this case, the entity shall use valuation techniques incorporating unobservable inputs.

Quantitative disclosure

A.4.5 - Fair value hierarchy

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

FINANCIAL ASSETS/LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS (in thousands of Euro)	31.12.2016			31.12.2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	-	39.893	7.500	-	-	259
2. Financial assets at fair value	-	-	-	-	-	-
3. Available for sale financial assets	355.626	16.586	2.017	3.216.832	-	4.701
4. Hedging derivatives	-	-	-	-	-	-
5. Property, plant and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**355.626**	**56.479**	**9.517**	**3.216.832**	**-**	**4.960**
1. Financial liabilities held for trading	-	46.447	2.031	-	-	21
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**46.447**	**2.031**	**-**	**-**	**21**

Key

L1= Level 1 fair value of a financial instrument quoted in an active market;
L2= Level 2: fair value measured using valuation techniques based on observable market inputs other than the financial instrument's price;
L3= Level 3: fair value calculated using valuation techniques based on inputs not observable in the market.

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

ANNUAL CHANGES IN ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS (LEVEL 3) (in thousands of Euro)	Financial assets held for trading	Financial assets at fair value	Available for sale financial assets	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balance	**259**	**-**	**4.702**	-	**-**	**-**
2. Increases	**7.650**	**-**	**1.671**	**-**	**-**	**-**
2.1 Purchases	397		1.478	-	-	-
2.2 Profit taken to:				-	-	-
2.2.1 Profit or loss	-	-	-	-	-	-
- of which: Capital gains	-	-	-	-	-	-
2.2.2 Equity	X	X	193	**X**	-	-
2.3 Transfers from other levels [1]	-	-	-	-	-	-
2.4 Other increases	3	-	-	-	-	-
Business combinations	7.250	-	-	-	-	-
3. Decreases	**409**	**-**	**4.356**	**-**	**-**	**-**
3.1 Sales	-	-	-	-	-	-
3.2 Redemptions	409	-	-	-	-	-
3.3 Losses taken to:		-		-	-	-
3.3.1 Profit or loss	-	-	4.356	-	-	-
- of which capital losses	-	-	-	-	-	-
3.3.2 Equity	X	X	-	**X**	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-
4. Closing balance	**7.500**	**-**	**2.017**	-	**-**	**-**

Level 3 available for sale financial assets refer entirely to equity interests.

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3)

	Financial liabilities held for trading	Financial liabilities at fair value	Hedging derivatives
1. Opening balance	**317**	-	**-**
2. Increases	**2.031**	-	-
2.1 Issues	2.031	-	-
2.2 Losses taken to:		-	-
2.2.1 Profit or loss	-	-	-
- *of which:capital losses*	-	-	-
2.2.2 Equity	X	X	-
2.3 Transfers from other levels	-	-	-
2.4 Other increases	-	-	-
3. Decreases	**317**	-	
3.1 Redemptions	317	-	
3.2 Repurchases	-	-	-
3.3 Profit taken to:		-	-
3.3.1 Profit or loss	-	-	-
- *of which capital gains*	-	-	-
3.3.2 Equity	X	X	-
3.4 Transfers to other levels	-	-	-
3.5 Other decreases	-	-	-
4. Closing balance	**2.031**	**-**	**-**

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2016				31.12.2015			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held to maturity financial assets	-	-	-	-	-	-	-	-
2. Due from banks	1.393.358	-	-	1.393.358	95.352	-	-	95.352
3. Loans to customers	5.928.212	-	-	5.957.897	3.437.136	-	-	3.452.700
4. Property, plant and equipment held for investment purpose	719	-	-	926	720	-	-	926
5. Non-current assets and disposal groups	-	-	-	-	-	-	-	-
Total	**7.322.289**	**-**	**-**	**7.352.181**	**3.533.208**	**-**	**-**	**3.548.978**
1. Due to banks	503.964	-	-	503.964	662.985	-	-	662.985
2. Due to customers	5.045.136	-	-	5.065.578	5.487.476	-	-	5.491.311
3. Debt securities issued	1.488.556	83.173	-	1.405.334	-	-	-	-
4. Liabilities associated with non-current assets	-	-	-	-	-	-	-	-
Total	**7.037.656**	**83.173**	**-**	**6.974.876**	**6.150.461**	**-**	**-**	**6.154.296**

Key

BV= book value
L1= Level 1
L2= Level 2
L3= Level 3

Part B - Consolidated statement of financial position

ASSETS

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	31.12.2016	31.12.2015
a) Cash	34	34
b) On demand deposits at Central banks	-	-
Total	**34**	**34**

Section 2 - Financial assets held for trading - Item 20

2.1 Financial assets held for trading: breakdown by type

Type/Amounts	31.12.2016			31.12.2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. On-balance-sheet assets						
1. Debt securities				-	-	-
1.1 Structured	-	-	-	-	-	-
1.2 Other	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	-	-	-	**-**	**-**	**-**
B. Derivatives	**-**	**-**	**-**			
1. Financial derivatives		39.893	7.500	-	-	259
1.1 For trading	-	39.893	7.500	-	-	259
1.2 connected to the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 For trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	-	**39.893**	**7.500**	**-**	**-**	**259**
Total (A+B)	**-**	**39.893**	**7.500**	**-**	**-**	**259**

The financial assets and liabilities held for trading outstanding at 31 December 2016 were incorporated with the acquisition of the former GE Capital Interbanca Group and referred to interest rate derivatives that Interbanca S.p.A. negotiated with its Corporate clients up to 2009 to provide them with instruments to hedge risks such as fluctuations in interest rates. In order to remove market risk, all outstanding transactions are hedged with “back to back” trades, in which Interbanca assumed a position opposite to the one sold to corporate clients with independent market counterparties.

Level 3 assets include 2,0 million Euro in cross currency swaps with other banks.

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

Type/Amounts	31.12.2016	31.12.2015
A. On-balance-sheet assets		
1. Debt securities	**-**	**-**
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity securities	**-**	**-**
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. UCITS units	**-**	**-**
4. Loans	**-**	**-**
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
Total A	**-**	**-**
B. Derivatives		
a) Banks		
- fair value	4.340	259
b) Customers		-
- fair value	43.053	-
Total B	**47.393**	**259**
Total (A+B)	**47.393**	**259**

Section 4 - Available for sale financial assets – Item 40

4.1 Available for sale financial assets: breakdown by type

Type/Amounts	31.12.2016			31.12.2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	353.150	-	-	3.216.832	-	-
1.1 Structured	-	-	-	-	-	-
1.2 Other	353.150	-	-	3.216.832	-	-
2. Equity securities	2.476	12.647	2.017	-	-	4.701
2.1 At fair value	2.476	12.647	2.017	-	-	4.030
2.2 At cost	-	-	-	-	-	671
3. UCITS units	-	3.939	-	-	-	-
4. Loans	-	-	-	-	-	-
Total	**355.626**	**16.586**	**2.017**	**3.216.832**	**-**	**4.701**

Level 1 “other debt securities” refer to Italian government bonds, either fixed-rate and very short-term bonds or floating-rate and medium-term ones.

These securities have been mainly used for short-/very short-term repurchase agreements with banks, on the MTS platform or on the Eurosystem.

The decrease in debt securities was largely attributable to the 2,9 billion Euro worth of instruments sold during the year, resulting in a 5,5 million Euro gain.

Level 3 equity instruments refer to non-controlling interests. The increase was the result of the 15,1 million Euro contribution from the former Interbanca Group and the 1,5 million Euro acquisition of an interest in Cassa di Risparmio di Cesena after paying a contribution to Italy's Interbank Deposit Protection Fund (FITD, *Fondo Interbancario di Tutela dei Depositi*) as payment for the bank's capital increase. During the year, the Group recognised a 4,4 million Euro write-down of the equity interests in two investees after they were tested for impairment.

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

Type/Amounts	31.12.2016	31.12.2015
1. Debt securities	**353.150**	**3.216.832**
a) Governments and Central banks	353.150	3.216.832
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity securities	**17.140**	**4.701**
a) Banks	1.135	4.022
b) Other issuers:	16.005	679
- insurance companies	-	-
- financial companies	8.878	672
- non-financial companies	7.127	7
- other	-	-
3. UCITS units	**3.939**	**-**
4. Loans	**-**	**-**
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	**374.229**	**3.221.533**

Section 6 – Due from banks – Item 60

6.1 Due from banks: breakdown by type

Type / Amounts	31.12.2016				31.12.2015			
	BV	FV Level 1	FV Level 2	FV Level 3	BV	FV Level 1	FV Level 2	FV Level 3
A. Due from Central banks	**1.063.831**	**-**	**-**	**1.063.831**	**14.446**			**14.446**
1. Term deposits	-	X	X	X	-	X	X	X
2. Legal reserve	1.019.000	X	X	X	14.446	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Others	44.831	X	X	X	-	X	X	X
B. Due from banks	**329.527**	**-**	**-**	**329.527**	**80.906**	-	-	**80.906**
1. Loans	331.430	-	-	331.430	75.896	-	-	75.896
1.1 Current accounts and on demand deposits	239.590	X	X	X	X	X	X	X
1.2 Term deposits	88.034	X	X	X	-	X	X	X
1.3 Other loans:	1.903	-	-	-	-	X	X	X
- Reverse repurchase agreements	-	X	X	X	-	X	X	X
- Finance leases	1	X	X	X	-	X	X	X
- Other	1.902	X	X	X	-	X	X	X
2. Debt securities	-	-	-	-	5.010	-	-	5.010
2.1 Structured	-	X	X	X	-	X	X	X
2.2 Other	-	X	X	X	5.010	X	X	X
Total	**1.393.358**	**-**	**-**	**1.393.358**	**95.352**			**95.352**

Key
FV= fair value
BV= book value

Lending to other banks is not part of the Group's core business: the excess liquidity ensures the margin required to carry out banking operations as well as the funds necessary to seize potential market opportunities.

The fair value of receivables due from banks is in line with the relevant book value, considering the fact that interbank deposits are short- or very short-term indexed-rate instruments.

Other debt securities outstanding at the end of 2015, referring to bonds issued by banks which, given their characteristics, are classified under due from banks, were repaid during 2016.

Section 7 – Loans to customers – Item 70

7.1 Loans to customers: breakdown by type

Type/Amounts	31.12.2016						31.12.2015					
	Book value			Fair value			Book value			Fair value		
	Performing	Non-performing		L1	L2	L3	Perform-ing	Non-performing		L1	L2	L3
		Purchased	Others					Purchased	Others			
Loans	4.956.051	562.329	399.948				2.954.090	354.331	128.715	**-**	**-**	**3.452.700**
1. Current accounts	51.174	25.112	12.072	X	X	X	94.456	8.298	16.100	X	X	X
2. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
3. Loans/mortgages	724.708	3.466	154.467	X	X	X	6.903	2.993	-	X	X	X
4. Credit cards, personal loans and salary-backed loans	15.521	305.697	1.722	X	X	X	-	162.495	-	X	X	X
5. Finance leases	814.914	240	12.947	X	X	X	5	833	-	X	X	X
6. Factoring	2.711.340	-	180.244	X	X	X	2.532.819	-	102.389	X	X	X
7. Other loans	638.394	227.814	38.496	X	X	X	319.907	179.712	10.226	X	X	X
Debt securities	-	-	9.884	-	-	-	-	-	-	-	-	-
8 Structured	-	-	-	X	X	X	-	-	-	X	X	X
9 Other	-	-	9.884	X	X	X	-	-	-	X	X	X
Total	**4.956.051**	**562.329**	**409.832**	**-**	**-**	**5.957.897**	**2.954.090**	**354.331**	**128.715**	**-**	**-**	**3.452.700**

Acquired non-performing exposures mainly refer to the distressed retail loans of the NPL area. whose business is by nature closely associated with recovering impaired assets. Therefore, loans in the NPL Area sector are recognised under bad loans or unlikely to pay. In particular, those loans maintain the same classification as that assigned by the invoice seller, provided the latter is subject to the same law as Banca IFIS: otherwise, if the Bank has not ascertained the debtor's state of insolvency, those loans are classified as unlikely to pay.

Performing loans classified under "Other transactions" refer to tax receivables (124,6 million Euro) and the margin lending related to repurchase agreements on government bonds on the MTS platform (4,7 million Euro).

7.2 Loans to customers: breakdown by debtor/issuer

Type/Amounts	31.12.2016			31.12.2015		
	Performing	Non-performing		Performing	Non-performing	
		Purchased	Others		Purchased	Others
1. Debt securities:	**-**	**-**	**9.884**	**-**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	-	-	9.884	-	-	-
- non-financial companies	-	-	9.884	-	-	-
- financial companies	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	**4.956.051**	**562.329**	**399.948**	**2.954.090**	**354.331**	**128.715**
a) Governments	95.011	-	11.484	104.088	-	1.041
b) Other public entities	799.917	1	42.229	895.162	1	6.580
c) Other parties	4.061.123	562.328	346.235	1.954.840	354.330	121.094
- non-financial companies	3.344.966	27.595	280.942	1.824.749	16.747	108.357
- financial companies	72.206	99	29.969	114.927	95	6.666
- insurance companies	-	-	-	-	-	-
- other	643.951	534.634	35.324	15.164	337.488	6.071
Total	**4.956.051**	**562.329**	**409.832**	**2.954.090**	**354.331**	**128.715**

7.4 Finance leases

	Future minimum lease payments	Current value of future minimum lease payments
Within 1 year	330.333	306.193
Between 1 and 5 years	619.699	613.878
Over 5 years	5.093	4.657
Total-	**955.125**	**924.728**
Deferred financial profits	-	-
Bad debt provision	(41.924)	(41.924)
Recognised receivables	**913.201**	**882.804**

The reported amounts refer to IFIS Leasing, a subsidiary of Interbanca.

Section 12 – Property, plant and equipment and investment property – Item 120

12.1 Property, plant and equipment for functional use: breakdown of assets measured at cost

Assets/Amounts	31.12.2016	31.12.2015
1. Owned	**105.877**	**47.523**
a) Land	35.892	6.738
b) Buildings	62.735	37.899
c) Furnishings	1.780	641
d) Electronic systems	4.298	1.480
e) Others	1.172	765
2. 2.2 Acquired under finance leases	**3.751**	**3.920**
a) Land	-	-
b) Buildings	3.718	3.862
c) Furnishings	-	-
d) Electronic systems	-	-
e) Others	33	58
Total	**109.628**	**51.443**

The significant increase in this line item compared to the end of 2015 was largely due to the contribution from the former GE Capital Interbanca Group as well as the capitalisation of the costs for the restructuring of the property in Florence that houses the new headquarters of the NPL business area.

At the end of the period, the properties recognised under property, plant and equipment and investment property included the important historical building "Villa Marocco", located in Mestre – Venice and housing Banca IFIS's registered office, as well as, following the acquisition of the former GE Capital Interbanca Group, two buildings in Milan, housing the registered offices of Interbanca S.p.A. and some Group companies.

Since Villa Marocco is a luxury property, it is not amortised, but it is tested for impairment at least annually. To this end, they are appraised by experts specialising in luxury properties. During the year, there were no indications requiring to test the assets for impairment.

12.2 Investment property: breakdown of assets measured at cost

Assets/Amounts	31.12.2016				31.12.2015			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned	**720**	**-**	**-**	**926**	**720**	**-**	**-**	**926**
a) Land	-				-			
b) Buildings	720			926	720			926
2. 2.2 Acquired under finance leases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Land	-				-			
b) Buildings	-				-			
Total	**720**	**-**	**-**	**926**	**720**	**-**	**-**	**926**

12.5 Property, plant and equipment for functional use: annual changes

	Land	Buildings	Furnish-ings	Electronic systems	Others	To-tal 31.12.2016
A. Gross opening balance	**6.738**	**43.866**	**4.802**	**6.493**	**1.961**	**63.860**
A.1 Total net depreciation and impairment	-	(2.105)	(4.160)	(5.013)	(1.139)	**(12.417)**
A.2 Net opening balance	**6.738**	**41.761**	**642**	**1.480**	**822**	**51.443**
B. Increases	**29.154**	**25.239**	**1.398**	**4.311**	**758**	**60.860**
B.1 Purchases	29.154	25.239	1.398	4.311	743	**60.845**
of which: business combinations	*29.154*	*15.866*	*571*	*667*	*177*	***46.435***
B.2 Capitalised improvement expenses	-	-	-	-	-	**-**
B.3 Reversals of impairment losses	-	-	-	-	6	**6**
B.4 Fair value gains taken to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	**-**
B.6 Transfers from investment property	-	-	-	-	-	**-**
B.7 Other changes	-	-	-	-	9	**9**
C. Reductions	**-**	**(547)**	**(260)**	**(1.493)**	**(375)**	**(2.675)**
C.1 Sales	-	-	(2)	(4)	(149)	**(155)**
C.2 Depreciation	-	(547)	(258)	(1.489)	(197)	**(2.491)**
C.3 Impairment losses taken to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	**-**
b) profit or loss	-	-	-	-	-	**-**
C.4 Fair value losses taken to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	**-**
b) profit or loss	-	-	-	-	-	**-**
C.5 Exchange losses	-	-	-	-	-	**-**
C.6 Transfers to	-	-	-	-	-	-
a) Investment property	-	-	-	-	-	**-**
b) Assets under disposal	-	-	-	-	-	**-**
C.7 Other changes	-	-	-	-	(29)	**(29)**
D. Net closing balance	**35.892**	**66.453**	**1.780**	**4.298**	**1.205**	**109.628**
D.1 Total net depreciation and impairment	-	19.877	9.152	20.069	976	50.074
D.2 Gross closing balance	**35.892**	**86.330**	**10.932**	**24.367**	**2.181**	**159.702**
E. Measurement at cost	-	-	-	-	-	-

Property, plant and equipment for functional use are measured at cost and are depreciated on a straight-line basis over their useful life, with the exclusion of land with an indefinite useful life and the "Villa Marocco" property, whose residual value at the end of its useful life is expected to be higher than its book value.

As for buildings, excluding the contribution from the acquisition of the former GE Capital Interbanca Group, the purchases referred largely to the capitalisation of the costs for restructuring the property in Florence that houses the new headquarters of the NPL business area.

Property, plant and equipment not yet brought into use at the reporting date are not depreciated.

12.6 Investment property: annual changes

	31.12.2016	
	Land	Buildings
A. Opening balance	**-**	**720**
B. Increases	**-**	**-**
B.1 Purchases	-	-
B.2 Capitalised improvement expenses	-	-
B.3 Fair value gains:	-	-
B.4 Reversals of impairment losses	-	-
B.5 Exchange gains	-	-
B.6 Transfers from property for functional use	-	-
B.7 Other changes	-	-
C. Reductions	**-**	**-**
C.1 Sales	-	-
C.2 Depreciation	-	-
C.3 Fair value losses	-	-
C.4 Impairment losses	-	-
C.5 Exchange losses	-	-
C.6 Transfers to other asset portfolios	-	-
a) assets for functional use	-	-
b) non-current assets under disposal	-	-
C.7 Other changes	-	-
D. Closing balance	**-**	**720**
E. Measurement at fair value	-	926

Buildings held for investment purposes are measured at cost and refer to leased property. They are not amortised as they are destined for sale.

Section 13 – Intangible assets – Item 130

13.1 Intangible assets: breakdown by asset type

Assets/Amounts	31.12.2016		31.12.2015	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill:	X	**799**	X	**820**
A.1.1 Attributable to owners of the parent company	X	799	X	820
A.1.2 Non-controlling interests	X	-	X	-
A.2 Other intangible assets	**14.182**	**-**	**6.350**	**-**
A.2.1 Assets measured at cost:	14.182	-	6.350	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	14.182	-	6.350	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**14.182**	**799**	**6.350**	**820**

Goodwill, amounting to 799 thousand Euro, arises from the line-by-line consolidation of the Polish subsidiary IFIS Finance Sp. Z o. o..

The above-mentioned goodwill was tested for impairment in accordance with IAS 36 (Impairment Test). To do so, goodwill was allocated to the cash-generating unit corresponding to the whole company IFIS Finance, as it represents an autonomous business segment which cannot be further broken down. The test was carried out by applying the value in use method based on the projection of expected cash flows for an explicit period of 5 years. Expected cash flows were discounted based on the company's estimated cost of capital calculated using the Capital Asset Pricing Model. Expected cash flows were estimated based on the most recently approved business plan and financial projections based on the subsidiary's average growth trends. The terminal value was calculated assuming that the last net cash flow in the explicit planning period is replicable. The impairment test did not reveal any impairment losses to be recognised in profit or loss.

Finally, goodwill underwent a sensitivity analysis based on the cost of capital, using a fluctuation range equal to 5%; the test carried out with the control method confirmed the reliability of the reported amount.

The change in the value of goodwill compared to the previous year is attributable to the impact of changes in year-end exchange rates.

Other intangible assets at 31 December 2016 refer exclusively to software purchase and development, amortised on a straight-line basis over the estimated useful life, which is 5 years from deployment.

13.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		To-tal 31.12. 2016
		FINITE	INDEF	FINITE	INDEF	
A. Opening balance	**820**	**-**	**-**	**6.350**	**-**	**7.170**
A.1 Total net depreciation and impairment losses	-	-	-	-	-	**-**
A.2 Net opening balance	**820**	**-**	**-**	**6.350**	**-**	**7.170**
B. Increases	**-**	**-**	**-**	**11.402**	**-**	**11.402**
B.1 Purchases	-	-	-	11.402	-	**11.402**
of which: business combinations	-	-	-	*1.134*	-	***1.134***
B.2 Increases in internally generated intangible assets	X	-	-	-	-	**-**
B.3 Reversals of impairment losses	X	-	-	-	-	**-**
B.4 Fair value gains:						
- to equity	X	-	-	-	-	-
- to profit or loss	X	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	**-**
B.6 Other changes	-	-	-	-	-	**-**
C. Reductions	**21**	**-**	**-**	**3.570**	**-**	**3.591**
C.1 Sales	-	-	-	-	-	**-**
C.2 Impairment losses and amortisation:	-	-	-	3.570	-	**3.570**
- Amortisation expense	X	-	-	3.570	-	**3.570**
- Impairment losses	-	-	-	-	-	**-**
+ equity	X	-	-	-	-	-
+ profit or loss	-	-	-	-	-	-
C.3 Fair value losses:		-	-	-	-	**-**
- to equity	X	-	-	-	-	-
- to profit or loss	X	-	-	-	-	-
C.4 Transfer to non-current assets under disposal	-	-	-	-	-	**-**
C.5 Exchange losses	21	-	-	-	-	**21**
C.6 Other changes	-	-	-	-	-	**-**
D. Net closing balance	**799**	**-**	**-**	**14.182**	**-**	**14.981**
D.1 Total net amortisation, impairment losses and reversals of impairment losses	-	-	-		-	-
E. Gross closing balance	**799**	**-**	**-**	**14.182**	**-**	**14.981**
F. Measurement at cost	-	-	-			

Key
Fin: finite useful life
Indef: indefinite useful life

Purchases refer exclusively to investments for the enhancement of IT systems. The contribution from the acquisition of the former GE Capital Interbanca Group amounted to 1,1 million Euro.

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

14.1 Deferred tax assets: breakdown

The main types of deferred tax assets are set out below.

Deferred tax assets	31.12.2016	31.12.2015
Differences from PPA	253.030	-
Loans to customers (Law 214/2011)	192.310	-
Loans to customers	42.978	38.058
Equipment rental	1.460	-
Provisions for risks and charges	1.209	561
Others	2.193	803
Total	**493.180**	**39.442**

Deferred tax assets, amounting to 493,1 million Euro, included 253 million Euro in misalignments found during the acquisition of the former GE Capital Interbanca Group (PPA) and 228,5 million Euro in value adjustments on receivables that can be deducted in the following years.

14.2 Deferred tax liabilities: breakdown

The main types of deferred tax liabilities are shown below.

Deferred tax liabilities	31.12.2016	31.12.2015
Loans to customers	13.292	15.257
Property, plant and equipment	9.433	309
Available for sale securities	394	5.770
Others	1.315	60
Total	**24.434**	**21.396**

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

	31.12.2016	31.12.2015
1. Opening balance	**39.359**	**38.342**
2. Increases	**458.021**	**2.256**
2.1 Deferred tax assets recognised in the year	7.494	2.256
a) relative to previous years	30	-
b) due to change in accounting standards	-	-
c) reversals of impairment losses	-	-
d) other	7.464	2.256
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
Business combinations	450.527	
3. Decreases	**4.737**	**1.239**
3.1 Deferred tax assets reversed during the year	4.737	782
a) reversals	4.737	782
b) impairment losses due to unrecoverability	-	-
c) change in accounting standards	-	-
d) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	457
a) conversion into tax credits as per Italian Law 214/2011	-	-
b) other	-	457
4. Closing balance	**492.643**	**39.359**

14.3.1Changes in deferred tax assets as per Italian Law 214/2011 (recognised through profit or loss)

	31.12.2016	31.12.2015
1. Opening balance	**-**	**-**
2. Increases	**191.417**	**-**
Business combinations	191.417	**-**
3. Decreases	**-**	**-**
3.1 Reclassifications	**-**	**-**
3.2 Conversion in tax credits	-	-
a) deriving from losses for the year	-	-
b) deriving from tax losses	-	-
3.3 Other reductions	-	-
4. Closing balance	**191.417**	**-**

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

	31.12.2016	31.12.2015
1. Opening balance	**15.643**	**11.432**
2. Increases	**9.561**	**4.574**
2.1 Deferred tax liabilities recognised in the year	99	4.574
a) relative to previous years	-	-
b) due to change in accounting standards	-	-
c) other	99	4.574
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
Business combinations	9.462	-
3. Decreases	**1.985**	**363**
3.1 Deferred tax liabilities reversed during the year	695	16
a) reversals	694	16
b) due to change in accounting standards	-	-
c) other	1	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	1.290	347
4. Closing balance	**23.219**	**15.643**

14.5 Changes in deferred tax assets (recognised through equity)

	31.12.2016	31.12.2015
1. Opening balance	**63**	**-**
2. Increases	**584**	**63**
2.1 Deferred tax assets recognised in the year	104	63
a) relative to previous years	-	-
b) due to change in accounting standards	-	-
c) other	104	63
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
Business combinations	480	
3. Decreases	**110**	**-**
3.1 Deferred tax assets reversed during the year	110	-
a) reversals	110	-
b) impairment losses due to unrecoverability	-	-
c) due to change in accounting standards	-	-
d) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	-
4. Closing balance	**537**	**63**

14.6 Changes in deferred tax liabilities (recognised through equity)

	31.12.2016	31.12.2015
1. Opening balance	**5.753**	**2.836**
2. Increases	**835**	**2.948**
2.1 Deferred tax liabilities recognised in the year	268	2.948
a) relative to previous years	17	-
b) due to change in accounting standards	-	-
c) other	251	2.948
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
Business combinations	567	
3. Decreases	**5.373**	**31**
3.1 Deferred tax liabilities reversed during the year	5.373	15
a) reversals	5.373	15
b) due to change in accounting standards	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	16
4. Closing balance	**1.215**	**5.753**

Section 16 - Other assets – Item 160

16.1 Other assets: breakdown

	31.12.2016	31.12.2015
Receivables due from tax authorities	57.737	18.055
Prepayments and accrued income	39.905	19.875
Guarantee deposits	1.211	7.886
Securitisation transactions	20	301
Other items	150.701	36.219
Total	**249.574**	**82.336**

Receivables due from Italian tax authorities included 7,2 million Euro in payments on account (stamp duty and withholding taxes), 27,9 million Euro in funds placed in an escrow account pending the resolution of a dispute, and 15,0 million Euro in VAT credits claimed.

Prepayments and accrued income included 18,7 million Euro in prepayments related to the NPL Area segment's debt collection costs, 3,1 million Euro in interest on arrears due from the Public Administration, and 2,1 million Euro in prepaid interests in favour of customers with a fixed-term rendimax account.

Other items included a 43,9 million Euro receivable due from the parent company La Scogliera S.p.A. deriving from the tax consolidation regime as well as 26,9 million Euro in receivables due from the buyers of NPL portfolios.

LIABILITIES

Section 1 – Due to banks - Item 10

1.1 Due to banks: breakdown by type

Type of operation/Components of group	31.12.2016	31.12.2015
1. Due to Central banks	**1.179**	**119.792**
2. Due to banks	**502.785**	**543.193**
2.1 Current accounts and on demand deposits	55.480	25.241
2.2 Term deposits	396.419	133.727
2.3 Loans	50.886	384.225
2.3.1 Repurchase agreements	50.886	384.225
2.3.2 Other	-	-
2.4 Debt from buyback commitments on treasury equity instruments	-	-
2.5 Other payables	-	-
Total	**503.964**	**662.985**
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	503.964	662.985
Total fair value	**503.964**	**662.985**

The fall in Payables due to banks from the previous year was the result of the early repayment of the TLTRO loan received in December 2014 and the decline in repurchase agreements entered into with other banks.

The fair value of payables due to banks is in line with the relevant carrying amount, considering the fact that interbank deposits are short- or very short-term.

Section 2 – Due to customers – Item 20

2.1 Due to customers: breakdown by type

Type of operation/Components of group	31.12.2016	31.12.2015
1. Current accounts and on demand deposits	931.879	748.487
2. Term deposits	3.824.401	2.447.604
3. Loans	275.987	2.282.967
3.1 repurchase agreements	270.314	2.278.983
3.2 other	5.673	3.984
4. Debt from buyback commitments on treasury equity instruments	-	-
5. Other payables	12.869	8.418
Total	**5.045.136**	**5.487.476**
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	5.065.578	5.491.311
Total fair value	**5.065.578**	**5.491.311**

Current accounts and on demand deposits at 31 December 2016 included funding from the on demand rendimax savings account and the contomax online current account, amounting to 772,7 million and 23,7 million Euro, respectively; term deposits included 3.722,9 million Euro in funding from the fixed-term rendimax and contomax accounts.

Repurchase agreements were entered into with Cassa di Compensazione e Garanzia as counterparty and government bonds as the underlying assets.

It should be noted that the Group does not carry out "term structured repo" transactions.

Other loans refer mainly to payables for finance leases; they are recognised by using the financial method set out in IAS 17 to measure the leased property housing the NPL area, as detailed in paragraph 2.5 below.

Other payables refer largely to payables to sellers of tax or non-performing receivables portfolios with deferred price settlement.

2.5 Payables for finance leases

	31.12.2016	31.12.2015
Payables for finance leases	3.802	3.984

The payables described above relate for 3,8 million Euro to the real estate lease the former company Toscana Finanza SpA entered into in 2009 for the property located in Florence, which housed the headquarters of the NPL Area until August 2016. The term of the lease entered into with Centro Leasing S.p.A. is 18 years (from 01.03.2009 to 01.03.2027) and provides for the payment of 216 monthly instalments of 28.490 Euro, including the principal, interest and an option to buy the asset at the end of the lease for 1.876.800 Euro.

Please see part E, letter D of these Notes for details on the assignment of the lease agreement dated 13 May 2014 and why the Bank did not derecognise the relevant liability.

The rest of payables for finance leases refer to the purchase of motor vehicles by the subsidiary IFIS Finance.

Section 3 – Debt securities issued – Item 30

3.1 Debt securities issued: breakdown by type

Securities	31.12.2016				31.12.2015			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	1.487.831	83.173	-	1.404.609	-	-	-	-
1.1 structured bonds	-	-	-	-	-	-	-	-
1.2 other bonds	1.487.831	83.173	-	1.404.609	-	-	-	-
2. Other securities	725	-	-	725	-	-	-	-
2.1 structured securities	-	-	-	-	-	-	-	-
2.2 other	725	-	-	725	-	-	-	-
Total	**1.488.556**	**83.173**	**-**	**1.405.334**	**-**	**-**	**-**	**-**

Debt securities issued included 83,2 million Euro in bond loans and 725 thousand Euro in certificates of deposits issued by Interbanca S.p.a., as well as 1.404,6 million Euro in notes issued by the special purpose vehicles as part of three securitisations launched at the end of 2016. These were consolidated in order to provide a comprehensive view of the transactions.

Section 4 – Financial liabilities held for trading - item 40

4.1 Financial liabilities held for trading: breakdown by type

Type / Amounts	31.12.2016					31.12.2015				
	NV	FV			FV *	NV	FV			FV *
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	
3.1 Bonds	-	-	-	-	-	-	-	-	-	
3.1.1 Structured	-	-	-	-	-	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	-	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	
3.2.1 Structured	-	-	-	-	-	-	-	-	-	X
3.2.2 Other	-	-	-	-	-	-	-	-	-	X
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial derivatives		-	**46.447**	**2.031**			-	-	**21**	
1.1 Held for trading	X	-	46.447	2.031	X	X	-	-	21	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives		-	-	-			-	-	-	
2.1 Held for trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B		-	**46.447**	**2.031**			-	-	**21**	
Total (A+B)	X	-	**46.447**	**2.031**	X	X	-	-	**21**	X

Key
FV= fair value
FV* = Fair value calculated excluding changes in value due to changes in the issuer's creditworthiness compared to the date of issuance.
NV = Nominal or notional value
L1= Level 1
L2= Level 2
L3= Level 3

Concerning level 2 liabilities held for trading, see the comments in section 2 under assets.

Level 3 liabilities refer to cross currency swaps with other banks.

Section 8 – Tax liabilities – Item 80

See section 14 under assets.

Section 10 - Other liabilities - Item 100

10.1 Other liabilities: breakdown

	31.12.2016	31.12.2015
Due to suppliers	58.878	12.334
Due to personnel	22.105	5.088
Due to the Tax Office and Social Security agencies	17.934	4.902
Sums available to customers	13.375	9.077
Accrued expenses and deferred income	12.082	4.665
Other payables	212.951	168.532
Total	**337.325**	**204.598**

Payables due to personnel included the bonuses for the Top Management, including those for the previous years, subject to deferred payment, as well as payables for unused annual leave.

Other payables included approximately 167 million Euro in amounts due to customers that have not yet been credited and a 9,1 million Euro payable due to one of the buyers of NPL Area receivables. They also included 4,2 million Euro to be paid to the Interbank Deposit Protection Fund as additional contribution for the year 2016.

Section 11 - Post-employment benefits - Item 110

11.1 Post-employment benefits: annual changes

	31.12.2016	31.12.2015
A. Opening balance	**1.453**	**1.618**
B. Increases	**6.546**	**20**
B.1 Allocations for the year	195	20
B.2 Other changes	57	-
Business combinations	6.294	-
C. Reductions	**339**	**185**
C.1 Payments made	131	150
C.2 Other changes	208	35
D. Closing balance	**7.660**	**1.453**
Total	**7.660**	**1.453**

Payments made represent the benefits paid to employees during the year.

Other decreases include the impact of the discounting of benefits earned up to 31 December 2006 and still held in the company, which, based on the changes introduced by the new IAS 19, are recognised through equity.

Pursuant to the requirements of the ESMA in the document “European common enforcement priorities for 2012 financial statements” of 12 November 2012, the discount rate used was the interest rate based on the market yield of a benchmark of AA-rated European corporate bonds with maturity over 10 years. The same interest rate was used to discount the obligations at 31 December 2015.

11.2 Other information

Under IASs/IFRSs, a company's liabilities regarding benefits that will be paid to employees at the conclusion of the employer/employee relationship (post-employment benefits) should be recognised based on actuarial calculations of the amount that will be paid at maturity.

Specifically, these allocations must take into account the amount already earned over the period at the reporting date, projecting it into the future in order to calculate the amount that will be paid at the conclusion of the employer/employee relationship. This amount must then be discounted to take into account the time that will pass until payment.

Following the coming into force of the 2007 Budget Law, which brought the reform regarding supplementary pension plans—as per Legislative Decree no. 252 of 5 December 2005—forward to 1 January 2007, the employee was given a choice as to whether to allocate the post-employment benefits earned as from 1 January 2007 to supplementary pension funds or to maintain them in the company, which would then transfer it to a dedicated fund managed by INPS (the Italian National Social Security Institute).

This reform has led to changes in the accounting of such benefits as for both the benefits earned up to 31 December 2006 and those earned from 1 January 2007.

In particular:

- benefits earned as from 1 January 2007 constitute a defined-contribution plan, regardless of whether the employee has chosen to allocate them to a supplementary pension fund or to INPS's Treasury Fund. Those benefits shall be calculated according to contributions due without applying actuarial methods;

- benefits earned up to 31 December 2006 continue to be considered as a defined-benefit plan, and as such are calculated on an actuarial basis which, however, unlike the calculation method applied until 31 December 2006, no longer requires that the benefits be proportionally attributed to the period of service rendered: the employee's service is considered entirely accrued due to the change in the accounting nature of benefits earned as from 1 January 2007.

Section 12 – Provision for risks and charges - Item 120

12.1 Provisions for risks and charges: breakdown

Items/Components	31.12.2016	31.12.2015
1 Provisions for pensions	-	-
2. Other provisions for risks and charges	24.318	2.171
2.1 legal disputes	9.577	1.513
2.2 personnel expenses:	3.687	-
2.3 other	11.054	658
Total	**24.318**	**2.171**

12.2 Provisions for risks and charges: annual changes

Items/Components	31.12.2016	
	Pensions and post retirement benefit obligations	Other provisions
A. Opening balance	**-**	**2.171**
B. Increases	**-**	**24.321**
B.1 Provisions for the year	-	2.385
B.2 Changes due to the passage of time	-	-
B.3 Differences due to discount-rate changes	-	-
B.4 Other changes	-	-
Business combinations	-	21.936
C. Reductions	**-**	**2.174**
C.1 Used during the year	-	808
C.2 Differences due to discount-rate changes	-	-
C.3 Other changes	-	1.366
D. Closing balance	**-**	**24.318**

12.4 Provisions for risks and charges – Other provisions

Here below is the breakdown of the provision for risks and charges at the end of the year by type of dispute compared with the prior year. For the sake of clarity, the provisions deriving from the acquisition of the former GE Capital Interbanca Group are reported separately.

Legal disputes

Banca IFIS legal disputes

The provision outstanding at 31 December 2016, amounting to 1,9 million Euro, included 1,8 million Euro for 17 disputes concerning the Trade Receivables segment (the plaintiffs seek 18,0 million Euro in damages), and 100 thousand Euro for 8 disputes concerning the NPL Area segment.

Former GE Capital Interbanca Group legal disputes

The provision outstanding at 31 December 2016, amounting to 7,7 million Euro, included 250 thousand Euro for a dispute involving IFIS Factoring (the plaintiffs seek 500 thousand Euro in damages), 2,0 million Euro for 26 disputes concerning IFIS Leasing (the plaintiffs seek 4,3 million Euro in damages), and 5,5 million Euro for 7 disputes involving Interbanca (the plaintiffs seek 50,6 million Euro in damages).

Tax dispute

Banca IFIS tax dispute

The provision for risks at the end of 2015, amounting to 197 thousand Euro, referred to the amount set aside for the verification notices received by the Bank, which had filed an appeal against them with the competent Tax Commission. In July 2016, the Bank reached a full and final settlement with the Italian Revenue Agency, and subsequently paid the agreed amount to settle the above verification notices.

Other provisions

Other Banca IFIS provisions

The provision at 31 December 2016 included 2,5 million Euro in the amount set aside for commissions paid in early 2017 in order to buy back the senior tranche of the leasing securitisation (eligible securities).

The provision outstanding at 31 December 2015 referred to the amount set aside as per the request of Italy's Interbank Deposit Protection Fund (FITD, *Fondo Interbancario di Tutela dei Depositi*), of which Banca IFIS is a member. In a letter dated 16 September 2014, the FITD approved another rescue loan (in addition to the measures announced on 9 January 2014 and 17 July 2014) to Banca Tercas, placed under Special Administration. The relevant potential obligation for Banca IFIS amounted to 0,5 million Euro. Therefore, in 2014 Banca IFIS allocated said amount to the provisions for risks and charges. Since the underlying commitments have expired, the Bank has recognised the amount previously set aside through profit or loss.

Other former GE Capital Interbanca Group provisions

The provision outstanding at 31 December 2016, amounting to 12,3 million Euro, included 3,7 million Euro in personnel-related expenses and 8,6 million Euro in other provisions, including 3,5 million Euro for customer allowances and 3,8 million Euro as provision for risks on unfunded commitments.

Contingent liabilities

Here below are the most significant contingent liabilities outstanding at 31 December 2016. Based on the opinion of the legal advisers assisting the subsidiaries, they are considered possible, and therefore they are only disclosed.

For the sake of clarity, the contingent liabilities deriving from the acquisition of the former GE Capital Interbanca Group are reported separately.

Legal disputes

Banca IFIS legal disputes

Banca IFIS recognises contingent liabilities amounting to 7,4 million Euro in claims, represented by 12 disputes: 6 refer to disputes concerning the Trade Receivables segment, for a total of 7,2 million Euro, 2 to labour disputes, for 167 thousand Euro, and 4 to the NPL Area segment, for 71 thousand Euro. Banca IFIS, supported by the legal opinion of its lawyers, made no provisions for these positions, as the risk of defeat is considered possible.

Former GE Capital Interbanca Group legal disputes

Here below are the most significant contingent liabilities of the former GE Capital Interbanca Group.

Lawsuit against Interbanca to cancel a settlement

A lawsuit was filed against Interbanca in 2010 concerning a position for which the company had entered into a settlement agreement with the Receiver appointed at the time for the extraordinary administration proceedings involving a debtor of Interbanca. The new Receiver questioned the validity of the agreement, seeking 168 million Euro in damages from Interbanca, among others.

During the dispute, some defendants made various demands to Interbanca, asking that the company indemnifies them against the claims made by the plaintiff or to benefit from the settlement agreement entered into between Interbanca and the then Receiver.

The Court deemed the settlement agreement valid and enforceable, dismissing all claims of the Plaintiffs and the request the other defendants made to Interbanca.

The Court did not rule on the requests submitted by two defendants that Interbanca indemnifies them, and therefore not even on the objections raised by the company, separately ordering the proceeding involving also Interbanca to continue. As part of the first-instance trial, which is still pending, the court-appointed expert witness recently filed his report, concluding that the three debtors have no right to seek damages from the defendants. The plaintiffs objected to the decision and asked for another expert witness to prepare a new report or complement the one already filed. The Court has adjourned the case. The plaintiffs have appealed against the part of the first-instance ruling considering the settlement agreement valid and enforceable, reducing the damages they claim to approximately 149 million Euro. In the ruling issued on 10 March 2017, the Appeals Court dismissed the appeal, upholding the first-instance ruling and awarding costs against the plaintiffs. As mentioned, the risk assessment also accounts for the opinions of external lawyers as well as the positive indications from the first- and second-instance rulings. As mentioned, the risk assessment also accounts for the opinions of external lawyers as well as the positive indications from the first- and second-instance rulings.

Legal proceedings concerning a lawsuit for damages resulting from an extraordinary operation involving an industrial company as well as environmental damage

In early 2017, the officials of an extraordinary administration proceeding involving a chemical company in which Interbanca indirectly held a stake between 1999 and 2004 filed a lawsuit for damages.

The lawsuit was filed against Interbanca and 60 other defendants—corporations and individuals, including two former employees and one former director of Interbanca, which were held harmless by the latter—to ascertain their alleged joint responsibility and sentence them to pay for the damages allegedly caused to the company in extraordinary administration, initially estimated to be at least 388 million Euro.

The plaintiff alleged that the direct and indirect owners of the company in extraordinary administration, including Interbanca as well the former directors and statutory auditors of the company in extraordinary administration, had engaged in unlawful conduct. According to the plaintiff, the damages were caused by a spin-off launched by the company after it was placed into extraordinary administration, to the detriment of the company itself and its creditors.

In 2013, the receiver sought approximately 3,5 billion Euro in damages from the defendants, including Interbanca, for alleged environmental damage caused by the operation of chemical production plants owned by the company in extraordinary administration and its subsidiaries. Italy’s Ministry of the Environment and the Protection of the Territory and the Sea as well as the Ministry of Economy and Finance voluntarily joined the proceedings to support the plaintiff's claims.

The dispute was resolved—at least as far as most defendants, including Interbanca and its two former employees and its former director, are concerned—with the ruling issued on 10 February 2016, The Court dismissed the request to join the proceedings filed by Italy’s Ministry of the Environment and the Protection of the Territory and the Sea as well as the Ministry of Economy and Finance as inadmissible, dismissed all claims for damages filed by the plaintiff against, among others, Interbanca, its former employees and its former director, and awarded costs against the plaintiff and the Ministries.

In March 2016, both the Ministries and the plaintiff filed an appeal against the ruling, and the hearings were scheduled for 19 July 2016 and 4 October 2016, respectively. At the first hearing on the appeal filed by the Ministries, the Court adjourned the case to the 4 October 2016 hearing on the appeal filed by the plaintiff, combining the two proceedings.

In November 2016, Interbanca, the two former employees and the managing director involved entered into separate settlement agreements with the plaintiff, which withdrew the claims against Interbanca and the three individuals. In turn, these waived the costs awarded to them in the first-instance ruling.

To settle the pending appeal proceedings, the parties formally exchanged their waivers, and at the hearing on 21 February 2017, the plaintiff's attorney announced the finalisation of the settlement agreement with the Bank and the three mentioned individuals, filing the respective waivers. The Court adjourned the case to 16 June 2017 to ascertain the performance of all settlement agreements between the plaintiff and the defendants. Meanwhile, the appeal filed by the Ministries is still pending.

On 28 July 2015, the Ministry of the Environment and the Protection of the Territory and the Sea served Interbanca with an order requiring it and the other recipients effective immediately to take all actions necessary to control, limit, remove or otherwise manage any factor that could potentially cause damage at the three industrial plants operated by the company in extraordinary administration that had filed the lawsuit described above. Interbanca appealed against the order with the competent Administrative Court, asking for its suspension.

On 21 March 2016, the Regional Administrative Court issued its ruling, upholding Interbanca's appeal and cancelling the order. On 15 July 2016, the Ministry of the Environment and the Protection of the Territory and the Sea appealed against the decision. The Ministry also filed an appeal with the Italian Council of State against the rulings issued in the proceedings brought by all the other recipients of the order of the Ministry of the Environment and the Protection of the Territory and the Sea dated 24 July 2015. A hearing has not yet been scheduled.

Arbitration concerning an equity interest in an industrial company

In early August 2016, Interbanca was served with a notice of arbitration at the National and International Arbitration Chamber of Milan by a company owning a controlling interest in a IT services company in which Interbanca owns a non-controlling interest.

The dispute specifically concerns the validity and enforceability of Interbanca's exit from the investment, especially with reference to the put option the plaintiff granted to Interbanca under the agreements between the parties. Interbanca exercised the put option in accordance with the provisions of the agreements in force before the commencement of the arbitration. To date, the plaintiff has not yet estimated the alleged damages, asking the Arbitration Board to assess or liquidate them during the proceeding—including through an equitable remedy.

Tax dispute

Banca IFIS tax dispute

The contingent liabilities deriving from the verification notices for the fiscal years 2004 and 2005 were written off after reaching a settlement with the tax authorities on 13 June 2016. Under the settlement agreement, Banca IFIS paid 1,8 million Euro (including 1,1 million Euro in taxes, 388 thousand Euro in penalties, and 351 thousand Euro in interest).

On 23 December 2016, Banca IFIS received a VAT verification notice totalling 105 thousand Euro, without assessing any penalties and interest. Banca IFIS, supported by its tax advisers, decided to file an appeal and considered the risk of defeat possible, but not probable: therefore, it did not allocate funds to the provision for risks and charges.

Former GE Capital Interbanca Group tax disputes

Dispute concerning withholding taxes on interest paid in Hungary

Companies involved: Interbanca Spa and IFIS Leasing Spa (including the merged GE Leasing Italia Spa)

The Italian Revenue Agency contested the failure to pay the 27% withholding tax on the interest paid to the Hungarian financial company of the GE group without any withholding tax pursuant to the International Convention between Italy and Hungary for the avoidance of double taxation. The Italian Revenue Agency determined that the Hungarian entity was not the actual beneficiary of the interest paid by the Italian firms, but only a conduit company.

According to the Italian Revenue Agency, the beneficiary is a company allegedly incorporated in Bermuda, therefore the International Convention between Italy and Hungary for the avoidance of double taxation does not apply. Entities in tax havens are subject to a 27% withholding tax.

Therefore, for the years between 2007 and 2011, the Italian Revenue Agency assessed approximately 68 and 42 million Euro in additional withholding taxes against Interbanca Spa and IFIS Leasing Spa, respectively, as well as administrative penalties amounting to 150/250%.

The Companies involved filed an appeal against the verification notices pursuant to the law with the competent Tax Commissions, paying 1/3 of the tax, i.e. nearly 25 million Euro, as provisional enrolment on the tax register.

Following the exchange of information pursuant to Council Directive EU/2011/16, Hungary's tax authority concluded that the GE group's Hungarian company must be legitimately considered the beneficiary of the interest received from the Italian counterparties”.

So far, all rulings issued by the competent Provincial Tax Commissions (Turin and Milan) have fully upheld the appeals. As expected, the Italian Revenue Agency has appealed against these decisions.

Dispute concerning the write-off of receivables

Company involved IFIS Leasing Spa

The Italian Revenue Agency has reclassified the write-off of receivables made by the Company in 2004, 2005, 2006 and 2007 and added in the years between 2005 and 2011 to losses on receivables—without any actual evidence.

For the years 2004/2011, the Agency assessed 755 thousand Euro in additional taxes and administrative penalties amounting to 100%.

Dispute concerning the VAT treatment of insurance mediation activities

Company involved IFIS Leasing Spa

The Italian Revenue Agency challenged the failure to apply the pro-rata mechanism in the years between 2007 and 2010 concerning the VAT deduction for passive transactions in exchange for VAT-exempt commissions received from insurance companies for insurance mediation activities that are ancillary to the core vehicle leasing business (which is subject to VAT).

For the years 2007/2010, the Agency assessed 3 million Euro in additional VAT and administrative penalties amounting to 125%.

Reimbursements

In line with market practice, under the purchase agreement for the former GE Capital Interbanca Group, the seller (GE Capital International Limited) made a series of representations and warranties related to Interbanca and other Investees. Similarly, the agreement also contains a limited series of representations and warranties made by Banca IFIS, which concern mostly its ability to finalise the acquisition.

In addition, the agreement includes a series of special reimbursements paid by the seller related to the main legal and tax disputes involving the former GE Capital Interbanca Group companies.

For more details, see Section G in the Notes.

Section 15 – Equity attributable to owners of the parent company – Items 140, 160, 170, 180, 190, 200 and 220

15.1 Share capital and treasury shares: breakdown

Item		31.12.2016	31.12.2015
190	Share capital (in thousands of Euro)	53.811	53.811
	Number of ordinary shares	53.811.095	53.811.095
	Nominal amount of ordinary shares	1 Euro	1 Euro
200	Treasury shares (in thousands of Euro)	3.187	5.805
	Number of treasury shares	380.151	739.446

15.2 Share capital - number of parent company shares: annual changes

Headings/Types	Ordinary	Others
A. Shares held at the beginning of the year	**53.811.095**	**-**
- fully paid-up	53.811.095	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	739.446	-
A.2 Outstanding shares: opening balance	**53.071.649**	**-**
B. Increases	**359.295**	**-**
B.1 New issues	-	-
- paid:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- free:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Sale of treasury shares	350.000	-
B.3 Other changes	9.295	-
C. Reductions	**-**	**-**
C.1 Annulments	-	-
C.2 Buybacks of treasury shares	-	-
C.3 Company sell-offs	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing balance	**53.430.944**	**-**
D.1 Treasury shares (+)	380.151	-
D.2 Shares held at the end of the year	53.811.095	-
- fully paid-up	53.811.095	-
- not fully paid-up	-	-

15.3 Share capital: other information

The share capital is composed of 53.811.095 ordinary shares with a nominal value of 1 Euro each, bearing no rights, liens and obligations, including those relating to dividend distribution and capital redemption.

15.4 Profit reserves: other information

Items/Components	31.12.2016	31.12.2015
Legal reserve	10.762	10.762
Extraordinary reserve	357.955	237.553
Other reserves	9.685	8.463
Total income-related reserves	**378.402**	**256.778**
Buyback reserve	3.187	5.805
Future buyback reserve	-	34.195
Other reserves	2.246	2.078
Total item 170 reserves	**383.835**	**298.856**

Pursuant to art. 1, paragraph 145 of the 2014 Budget law (Law no. 147 of 27 December 2013), the Bank realigned the difference between the tax base and carrying amount of property, plant and equipment recognised at 31 December 2012 and still held at 31 December 2013.

The amount corresponding to the higher values following the realignment, net of the substitute tax, generated a 7,4 million Euro untaxed reserve.

Other information

1. Commitments and guarantees granted

Operations	31.12.2016	31.12.2015
1) Financial guarantees	**191.585**	**131.293**
a) Banks	11	-
b) Customers	191.574	131.293
2) Commercial guarantees	**-**	**-**
a) Banks	-	-
b) Customers	-	-
3) Irrevocable commitment to grant funds	**225.585**	**65.855**
a) Banks	**-**	**3.674**
i) certain use	-	3.674
ii) uncertain use	-	-
b) Customers	**225.585**	**62.181**
i) certain use	77.883	13.766
ii) uncertain use	147.702	48.415
4) Commitments underlying credit derivatives: sale of protection	**-**	**-**
5) Assets used as collateral by third parties	**-**	**-**
6) Other commitments	**145.290**	**91.296**
Total	**562.460**	**288.444**

Financial guarantees granted to customers essentially refer to guarantees granted in favour of invoice sellers for collected tax receivables.

Other commitments refer to unused bank overdraft facilities on customers’ current accounts.

2. Assets used as collateral for own liabilities and commitments

Portfolios	31.12.2016	31.12.2015
1. Financial assets held for trading	-	-
2. Financial assets at fair value	-	-
3. Available for sale financial assets	30.117	-
4. Held to maturity financial assets	-	-
5. Due from banks	-	-
6. Loans to customers	-	-
7. Property, plant and equipment	-	-

Available for sale financial assets refer to government bonds used as collateral with the Bank of Italy.

5. Administration and mediation on behalf of third parties

Type of services	Amounts
1. Execution of orders on behalf of clients	**-**
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Portfolio management:	**-**
a) individual	-
b) collective	-
3. Safekeeping and administration of securities	**1.431.736**
a) third party securities in custody: associated with depositary bank	-
services (excluding portfolio management)	
1. securities issued by consolidated companies	-
2. other securities	-
b) other third party securities in custody (excluding portfolio management): other	1.037.645
1. securities issued by consolidated companies	217.321
2. other securities	820.324
c) third party securities held with third parties	*1.037.645*
d) own securities held with third parties	394.091
4. Other transactions	**-**

The subsidiary Interbanca provides safe custody and management of securities.

Part C - Consolidated income statement

Section 1 – Interest - Items 10 and 20

1.1 Interest receivable and similar income: breakdown

	Items/Types	Debt securities	Loans	Other transactions	31.12.2016	31.12.2015
1	Financial assets held for trading	-	-	-	-	-
2	Financial assets at fair value	-	-	-	-	-
3	Available for sale financial assets	11.083	-	-	11.083	43.991
4	Held to maturity financial assets	-	-	-	-	22.110
5	Due from banks	-	35	428	463	444
6	Loans to customers	27	100.754	213.018	313.799	183.550
7	Hedging derivatives	X	X	-	-	-
8	Other assets	X	X	93	93	115
	Total	**11.110**	**100.789**	**213.539**	**325.438**	**250.210**

The decline in interest on financial assets compared to 2015 was essentially the result of the reduction in interest income from the debt securities portfolio—largely because of the rebalancing completed in April 2015 as well as the downsizing of the portfolio itself.

The subline item Loans to customers, Other transactions, include the 15,8 million Euro positive effect of the implementation of the new model to estimate the cash flows of health service receivables. This was recognised under interest income and commented on in the introductory notes on how to read the data of the Directors' Report and Part A of these Notes. It also included 3,1 million Euro in positive interest expense attributable to the decline in funding rates.

1.3 Interest receivable and similar income: other information

1.3.1 Interest income on foreign currency financial assets

	31.12.2016	31.12.2015
Interest income on foreign currency financial assets	10.324	1.950

1.3.2 Interest income on finance leases

	31.12.2016	31.12.2015
Interest income on finance leases	3.039	-

1.4 Interest due and similar expenses: breakdown

	Items/Types	Payables	Securities	Other transactions	31.12.2016	31.12.2015
1	Due to Central banks	(22)	X	(1.879)	(1.901)	(303)
2	Due to banks	(1.467)	X	-	(1.467)	(325)
3	Due to customers	(50.124)	X	(4)	(50.128)	(40.936)
4	Outstanding securities	X	(3.439)	-	(3.439)	-
5	Financial liabilities held for trading	-	-	-	-	-
6	Financial liabilities at fair value	-	-	-	-	-
7	Other liabilities and provisions	X	X	(320)	(320)	(20)
8	Hedging derivatives	X	X	-	-	-
	Total	**(51.613)**	**(3.439)**	**(2.203)**	**(57.255)**	**(41.584)**

Interest expense on outstanding securities included 3,0 million Euro in funding costs for the securitisations carried out in late 2016, as detailed in Part E of these Notes.

Interest expense on payables due to customers related to the “payables” category at 31 December 2016 referred for 49,1 million Euro to the rendimax savings account, up from 39,8 million Euro at 31 December 2015, as a result of the newly introduced 3-, 4- and 5-year maturities as well as some promotional campaigns aiming to boost funding levels ahead of the finalisation of the former GE Capital Interbanca Group acquisition.

1.6 Interest due and similar expenses: other information

1.6.1 Interest expense on foreign currency liabilities

	31.12.2016	31.12.2015
Interest expense on foreign currency liabilities	(293)	(183)

1.6.2 Interest expense on liabilities for finance leases

	31.12.2016	31.12.2015
Interest expense on liabilities for finance leases	(64)	(141)

Section 2 – Commissions - Items 40 and 50

2.1 Commission income: breakdown

Service type/Amounts	31.12.2016	31.12.2015
a) guarantees granted	38	102
b) derivatives on loans	-	-
c) management. brokerage and consultancy services:	558	-
1. trading in financial instruments	-	-
2. trading in currencies	-	-
3. asset management	359	-
3.1. individual	359	-
3.2. collective	-	-
4. safe custody and management of securities	-	-
5. depository bank	-	-
6. placement of securities	-	-
7. order collection and transmission	-	-
8. consultancy	-	-
8.1 on investments	-	-
8.1 on financial structure	-	-
9. third-party services	199	-
9.1. asset management	-	-
- 9.1.1. individual	-	-
- 9.1.2. collective	-	-
9.2. insurance products	199	-
9.3. Other products	-	-
d) collection and payment services	987	2.101
e) servicing for securitisation transactions	165	-
f) services for factoring transactions	53.565	57.738
g) tax collection and payment	-	-
h) management of multi-lateral trading systems	-	-
i) current account holding and management	1.129	1.120
j) other services	2.964	2.113
Totale	**59.406**	**63.174**

2.2 Commission expense: breakdown

Services/Amounts	31.12.2016	31.12.2015
a) guarantees received	(202)	(183)
b) derivatives on loans	-	-
c) management, brokerage and consultancy services:	(96)	(75)
1. trading in financial instruments	-	-
2. trading in currencies	-	-
3. asset management:	-	-
3.1 own assets	-	-
3.2 delegated by third parties	-	-
4. safe custody and management of securities	(96)	(75)
5. placement of financial instruments	-	-
6. off-site offer of financial instruments, services and products	-	-
d) collection and payment services	(2.956)	(2.480)
e) other services	(15.041)	(1.653)
Total	**(18.295)**	**(4.391)**

Other services included 12,5 million Euro in up-front commissions for the factoring, leasing and lending securitisations carried out in December 2016, as described in Part E of these Notes; in addition, this line item referred to commissions from approved banks’ mediation activities, the work of other credit intermediaries, and commissions paid to correspondent banks and factors.

Section 4 – Net profit (loss) from trading - Item 80

4.1 Net profit (loss) from trading: breakdown

Items / Returns	Capital gains (A)	Profit from trading (B)	Capital losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	**(510)**
4. Derivative instruments	**1.394**	**729**	**(959)**	**(1.356)**	**(192)**
4.1 Financial derivatives:	1.394	729	(959)	(1.356)	(192)
- On debt securities and interest rates	1.394	729	(959)	(1.356)	(192)
- On equity instruments and share indexes	-	-	-	-	-
- On currencies and gold	X	X	X	X	-
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Totale	**1.394**	**729**	**(959)**	**(1.356)**	**(702)**

Section 6 – Profit (loss) from sale or buyback - Item 100

6.1 Profit (loss) from sale or buyback: breakdown

Items/Returns	31.12.2016			31.12.2015		
	Profit	Losses	Net result	Profit	Losses	Net result
Financial assets						
1. Due from banks	-	-	-	-	-	-
2. Loans to customers	44.809	(280)	44.529	14.948	-	14.948
3. Available for sale financial assets	8.643	(3.165)	5.478	126.384	(705)	125.679
3.1 Debt securities	8.643	(3.165)	5.478	126.346	(705)	125.641
3.2 Equity instruments	-	-	-	38	-	38
3.3 UCITS units	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Held to maturity financial assets	-	-	-	-	-	-
Total assets	**53.452**	**(3.445)**	**50.007**	**141.332**	**(705)**	**140.627**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	-	-	-

The gains on the sale of loans to customers were achieved by selling portfolios of receivables of the NPL Area segment, as commented under Contribution of business segments in the Directors' Report.

The gains on the sale of debt securities of the previous year included 124,0 million Euro in gains from the rebalancing of the government bond portfolio; the Group sold additional government bonds in 2016, realising a 5,5 million Euro gain.

Section 8 – Net impairment losses/reversals - Item 130

8.1 Net impairment losses on receivables: breakdown

Items/ returns	Impairment losses (1)			Reversals of impairment losses (2)				Total 31.12.2016	Total 31.12.2015
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Others		A	B	A	B		
A. Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- loans	-	-	-	-	-	-	-	-	-
- debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers	**(38.620)**	**(35.938)**	**(1.250)**	**2.471**	**13.015**	**1.179**	**4.261**	**(54.882)**	**(25.273)**
Acquired non-performing loans	(34.158)	(200)	-	-	-	-	-	(34.358)	(3.613)
- loans	(34.158)	(200)	X	-	-	X	X	(34.358)	(3.613)
- debt securities	-	-	X	-	-	X	X	-	-
Other receivables	(4.462)	(35.738)	(1.250)	2.471	13.015	1.179	4.261	(20.524)	(21.660)
- loans	(4.462)	(35.738)	(1.250)	2.471	13.015	1.179	4.261	(20.524)	(21.660)
- debt securities	-	-	-	-	-	-	-	-	-
C. Total	**(38.620)**	**(35.938)**	**(1.250)**	**2.471**	**13.015**	**1.179**	**4.261**	**(54.882)**	**(25.273)**

Key
A= from interest
B= other reversals

Net impairment losses on receivables referred for 20,3 million Euro to Trade Receivables, 32,6 million Euro to the NPL Area,1,5 million Euro to the Leasing sector, and 0,4 million Euro to Tax Receivables. As for net value adjustments on NPL receivables, they referred to positions for which trigger events occurred, causing the position to become impaired under the adopted measurement model and the relevant accounting policy, as detailed in Contribution of business segments in the Directors' Report.

The impairment losses and reversals include the 'time value' effect deriving from the process of discounting expected future cash flows.

8.2 Net impairment losses on available for sale financial assets: breakdown

Items/ Returns	Impairment losses (1)		Reversals of impairment losses (2)		Total 31.12.2016	Total 31.12.2015
	Specific		Specific			
	Write-offs	Others	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equity instruments	-	(4.356)	X	X	(4.356)	(8.977)
C. UCITS units	-	-	X	-	-	-
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**(4.356)**	**-**	**-**	**(4.356)**	**(8.977)**

Key
A= from interest
B= other reversals

Net impairment losses on available for sale financial assets referred to impairment losses recognised on unlisted equity instruments that were found to be impaired.

8.4 Net impairment losses on other financial transactions: breakdown

Items / Returns	Impairment losses			Reversals				Total 31.12.2016	Total 31.12.2015
	Specific		Portfo-lio	Specific		Portfolio			
	Write-offs	Others		A	B	A	B		
A. Guarantees granted	-	-	-	-	-	-	5	5	-
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Loan commitments	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
E. Total	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**5**	**-**

Key
A= from interest
B= other reversals

Section 11 – Administrative expenses - Item 180

11.1 Personnel expenses: breakdown

Type of expense/Sectors	31.12.2016	31.12.2015
1) Employees	**(61.880)**	**(44.656)**
a) salaries and wages	(41.144)	(32.587)
b) social security contributions	(11.313)	(9.239)
c) post-employment benefits	(2.047)	(1.680)
d) pension expense	(9)	-
e) allocations for post-employment benefits	(195)	(20)
f) allocations to pensions and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments made to supplementary external funds:	(48)	-
- defined contribution plans	(48)	-
- defined benefit plans	-	-
h) costs arising from share-based payment agreements	-	-
i) other employee benefits	(7.124)	(1.130)
2) Other serving employees	(123)	(120)
3) Directors and Statutory Auditors	(3.993)	(3.566)
4) Retired personnel	-	-
5) Reimbursements of seconded staff expenses	127	-
6) Reimbursements of third-party seconded staff expenses	(9)	-
Total	**(65.878)**	**(48.342)**

Personnel expenses rose 36,3% and included 5,5 million Euro in costs deriving from the agreements with some top executives of the GE Capital Interbanca Group attributable to the previous management.

Post-employment benefits include both contributions that employees have chosen to leave in the company and to be paid to INPS's Treasury Fund, and contributions to be paid to supplementary pension funds. Allocations for post-employment benefits refer to the revaluation of post-employment benefits earned up to 31 December 2006 and left in the company.

Besides the mentioned 5,5 million Euro in costs, other employee benefits included expenses incurred for training and refresher courses.

11.2 Average number of employees by category

Employees:	31.12.2016	31.12.2015
Employees:	**1.023,5**	**671,0**
(a) senior managers	43,5	24,0
(b) middle managers	275,0	51,5
(c) remaining personnel	705,0	595,5
Other personnel	**-**	**-**

11.5 Other administrative expenses: breakdown

Type of expense/Amounts	31/12/2016	31/12/2015
Expenses for professional services	**(56.995)**	**(31.044)**
Legal and consulting services	(25.511)	(13.948)
Auditing	(428)	(226)
Outsourced services	(31.056)	(16.870)
Direct and indirect taxes	**(14.882)**	**(8.748)**
Expenses for purchasing goods and other services	**(54.399)**	**(39.036)**
Customer information	(11.376)	(6.793)
Software assistance and hire	(5.550)	(3.267)
Postage of documents	(5.254)	(3.632)
Property expenses	(4.667)	(4.585)
Advertising and inserts	(3.769)	(2.150)
Car fleet management and maintenance	(2.407)	(2.264)
Telephone and data transmission expenses	(1.923)	(1.441)
Employee travel	(1.665)	(1.120)
Other sundry expenses	(17.788)	(13.784)
Total administrative expenses	**(126.276)**	**(78.828)**

Other administrative expenses were up 60,2% because of the costs incurred for the acquisition of the former GE Capital Interbanca Group (9,5 million Euro in legal and consulting fees) and the higher business volumes in the NPL Area. The relevant costs for collecting debts and gathering information on clients (29,4 and 9,4 million Euro, compared to 15,4 and 5,3 million Euro at 31 December 2015, respectively), are included in this item of the income statement. The cost of gathering information on clients specifically concern master data and employment information search costs, which are necessary to reclassify the positions being processed.

Type of services	Service provider	Beneficiary	Fees (units of Euro)
Independent auditors' fees	EY S.p.A.	Banca IFIS S.p.A.	161.925
		Subsidiaries	153.523
Certification services	EY S.p.A	Banca IFIS S.p.A.	
		Subsidiaries	-
Tax consultancy services	EY S.p.A	Banca IFIS S.p.A.	-
		Subsidiaries	-
Other services	EY S.p.A	Banca IFIS S.p.A.	20.000
		Subsidiaries	1.183
Total			**336.631**

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

12.1. Net allocations to provisions for risks and charges: breakdown

Type of expense/Amounts	31.12.2016	31.12.2015
- Net allocations to the provision for risks and charges for legal disputes	33	(32)
- Net allocations to the provision for risks and charges for tax dispute	133	(197)
- Net allocations to the provision for sundry risks and charges	(2.015)	-
Total	**(1.849)**	**(229)**

Provisions for legal disputes refer for 275 thousand Euro to Trade Receivables and 68 thousand Euro to the NPL Area, net of reversals amounting to 141 thousand Euro following the settlement of a dispute involving Interbanca and 235 thousand Euro for an excess provision related to the Leasing sector.

Allocations to other provisions included 2,5 million Euro in commissions to be paid in early 2017 in order to buy back the senior tranche of the securitisation activated by the subsidiary IFIS Leasing (eligible securities), net of 461 thousand Euro in reversals related to an allocation made in previous years to Italy's Interbank Deposit Protection Fund.
In addition, the Group recognised 133 thousand Euro in reversals following the settlement of a tax dispute.

For more details, see Part B, Section 12 Provisions for risks and charges in these Notes.

Section 13 – Net impairment losses/reversals on property, plant and equipment – Item 200

13.1. Net impairment losses on property, plant and equipment: breakdown

	Income items	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	**Net result (a + b - c)**
A.	Property, plant and equipment				
	A.1 Owned	(2.480)	-	-	(2.480)
	- for functional use	(2.480)	-	-	(2.480)
	- for investment purposes	-	-	-	-
	A.2 Acquired under finance leases	(5)	-	-	(5)
	- for functional use	(5)	-	-	(5)
	- for investment purposes	-	-	-	-
	Total	**(2.485)**	**-**	**-**	**(2.485)**

Section 14 – Net impairment losses/reversals on intangible assets - Item 210

14.1 Net impairment losses on intangible assets: breakdown

	Income items	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	**Net result (a + b - c)**
A.	Intangible assets				
	A.1 Owned	(3.561)	-	-	(3.561)
	- Internally generated	(21)	-	-	(21)
	- Other	(3.540)	-	-	(3.540)
	A.2 Acquired under finance leases	(9)	-	-	(9)
	Total	**(3.570)**	**-**	**-**	**(3.570)**

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

15.1 Other operating expenses: breakdown

Type of expense/Amounts	**31/12/2016**	**31/12/2015**
a) Transactions with customers	(3.616)	(14)
b) Capital losses	(317)	-
c) Other expenses	(4.271)	(265)
Total	**(8.204)**	**(279)**

Transactions with customers included 2,8 million Euro in expenses incurred for a legal dispute involving the trade receivables segment. Other expenses included 1,5 million Euro in contractual penalties following the termination of two service contracts.

15.2 Other operating income: breakdown

Type of expense/Amounts	**31/12/2016**	**31/12/2015**
a) Bargain on interest acquisition	623.635	-
a) Recovery of expenses charged to third parties	2.591	2.999
c) Receivable rental fees	86	64
d) Other income;	3.110	242
Total	**629.422**	**3.305**

Other operating income, totalling 629,4 million Euro (3,3 million Euro at 31 December 2015), included the 623,6 million Euro gain on bargain purchase from the acquisition of the former GE Capital Interbanca Group, as detailed in Part G of these Notes.

The item “Recovery of expenses charged to third parties” refers to charges on customers for legal and consulting expenses, as well as registration fees and stamp duties recognised under the item “Other administrative expenses”.

Section 20 - Income taxes for the year relating to current operations - Item 290

20.1 Income taxes for the year relating to current operations: breakdown

Income components/Sectors		31.12.2016	31.12.2015
1.	Current tax expense (-)	(35.306)	(80.121)
2.	Changes in current taxes of previous years (+/-)	(2.227)	(242)
3.	Reductions in current taxes for the year (+)	343	-
3.bis	Reductions in current taxes for the year for tax credits as per Italian Law no. 214/2011 (+)	-	-
4.	Changes in deferred tax assets (+/-)	2.763	952
5.	Changes in deferred tax liabilities (+/-)	1.886	(4.212)
6.	Tax expense for the year (-) (-1+/-2+3+3 bis+/-4+/-5)	(32.541)	(83.623)

20.2 Reconciliation between theoretical tax charges and effective tax charges for the year

Items/Components	31.12.2016
Pre-tax profit (loss) for the year from continuing operations	**720.526**
Corporate tax (IRES) – theoretical tax charge (27,5%)	(198.145)
- effect of non-taxable income and other reductions - permanent	*176.900*
- Effect of non-deductible charges and other increases - permanent	*(2.624)*
- benefits from the application of national tax consolidation	*-*
- non-current corporate tax	*(2.012)*
- deferred non-current corporate tax	*1.096*
- effect of other changes	*(48)*
Corporate tax – Effective tax charges	**(24.833)**
Regional tax on productive activities (IRAP) – theoretical tax charges (5,57%)	(40.133)
- effect of income/charges that are not part of the taxable base	*32.880*
- non-current regional tax on productive activities	*(212)*
- deferred non-current regional tax on productive activities	*222*
Regional tax on productive activities – Effective tax charges	**(7.243)**
Other taxes	**(465)**
Effective tax charges for the year	**(32.541)**

Section 23 – Other information

There is no further information to be reported in addition to that already included in previous or following sections of these notes to the consolidated financial statements.

Section 24 – Earnings per share

24.1 Average number of ordinary diluted shares

Earnings per share and diluted earnings per share	31.12.2016	31.12.2015
Consolidated profit for the period (in thousands of Euro)	**687.945**	**161.966**
Average number of outstanding shares	53.153.178	53.034.493
Average number of potentially dilutive shares	9.635	5.787
Average number of diluted shares	53.143.543	53.028.706
Consolidated earnings per share (Units of Euro)	**12,94**	**3,05**
Consolidated diluted earnings per share (Units of Euro)	**12,95**	**3,05**

Potentially dilutive shares refer to share-based payments for upfront variable pay, as described in Part I of these Notes.

Part D - Consolidated statement of comprehensive income

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The changes in the values of assets recognised during the year against valuation reserves are reported below.

	Items (in thousands of Euro)	Gross amount	Income tax	Net amount
10.	**Profit (loss) for the period**	**X**	**X**	**687.985**
	Other comprehensive income, net of taxes, without reversal to income statement	**61**	**17**	**44**
20	Property, plant and equipment	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	61	17	44
50.	Non-current assets under disposal	-	-	-
60.	Share of valuation reserve of equity accounted investments	-	-	-
70.	Foreign investment hedges:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
80.	Exchange rate differences:	(1.085)	-	(1.085)
	a) fair value gains (losses)	(1.085)	-	(1.085)
	b) reclassification to profit or loss	-	-	-
	c) other changes		-	-
90.	Cash flow hedges:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
100.	Available for sale financial assets:	(15.230)	(5.087)	(10.143)
	a) fair value gains (losses)	(10.205)	(3.425)	(6.780)
	b) reclassification to profit or loss	(7.862)	(2.600)	(5.262)
	- impairment losses			-
	- profit/loss from realisation	(7.862)	(2.600)	(5.262)
	c) other changes	2.837	938	1.899
110	Non-current assets under disposal:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
120	Share of valuation reserve of equity accounted investments:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	- impairment losses	-	-	-
	- profit/loss from realisation	-	-	-
	c) other changes	-	-	-
130	**Total other comprehensive income**	**(16.254)**	**(5.070)**	**(11.184)**
140	**Total comprehensive income (item 10+130)**	**(16.254)**	**(5.070)**	**676.801**
150.	Total consolidated comprehensive income attributable to non-controlling interests	-	-	(40)
160	**Total consolidated comprehensive income attributable to the parent company**	**(16.254)**	**(5.070)**	**676.761**

Part E - Information on risks and risk management policies

The prudential supervisory provisions for banks continue to strengthen the system of rules and incentives that allow to measure more accurately potential risks connected to banking and financial operations as well as maintain internal capital levels more suited to the effective level of risk exposure of each intermediary.

Concerning risk governance, the Group regularly reviews the strategic guidelines set out in the so-called Risk Appetite Framework. Meanwhile, the second pillar of the provisions includes the ICAAP process (Internal Capital Adequacy Assessment Process), pursuant to which the Group autonomously assesses its own current and expected capital adequacy in relation to both so-called first-pillar risks (credit risk, counterparty risk, market risk and operational risk) and other risks (banking book interest rate risk, concentration risk, etc.).

This examination accompanied the preparation and submission to the Supervisory body of the annual ICAAP report as at 31 December 2015.

Concerning liquidity, in 2016 Banca IFIS prepared the first ILAAP (Internal Liquidity Adequacy Assessment Process) report, and it will prepare the same document in 2017 considering the scope of the new banking Group. Liquidity is managed at consolidated level starting from the day following the closing of the acquisition of the former Interbanca Group.

In May 2016, again with reference to 31 December 2015 and in compliance with the obligations in the relevant provisions, Banca IFIS published information on its capital adequacy, its exposure to risks, and the general characteristics of the systems it has put in place to identify, measure and maage these risks. This document has been published on Banca IFIS's website www.bancaifis.it in the 'Investor relations' section.

With reference to the above, and as per Circular 285 of 17 December 2013 as amended - Supervisory Provisions for banks - the Banca IFIS Group has set up an Internal Control System that aims to guarantee a reliable and sustainable generation of value in a context of sensible risk control and taking, so as to protect the Group's financial solidity. This document has been updated also to include the newly acquired business scope. Banca IFIS's Internal Control System consists of rules, procedures and organisational structures aiming to ensure corporate strategies are complied with and the following goals achieved:

- effectiveness and efficiency of corporate processes (administration, production, distribution, etc.);
- safeguarding of assets' value and protection from losses;
- reliability and integrity of accounting and operating information;
- compliance of operations with the law, supervisory regulations and internal policies, plans, regulations and procedures, as well as the Codes (Code of Ethics, Corporate Governance Code, etc.) adopted by the Group.

Audits involve all personnel to varying degrees and constitute an integral part of day-to-day operations. They can be classified according to the relevant organisational structures. Some types of audits are highlighted below:

- Line audits aim to ensure operations are carried out correctly. These audits are carried out by the operational structures themselves, incorporated in procedures, or performed as part of back office operations;

- Second line of defence audits aim to define methods for measuring/evaluating risks, verify if limits assigned to the various operational areas are being respected, and check if operations within all areas are consistent with the risk appetite and tolerance objectives set out every year in the so-called Risk Appetite Framework. They are assigned to second line of defense functions;
- Internal audit activities aim to identify anomalies and violations of procedures and regulations, as well as to assess the overall efficiency and effectiveness of the Internal Control System. These activities are carried out all the time, either regularly or exceptionally, by structures other than and independent from the operational ones, also via on-the-spot audits.

The role of the different players involved in the Internal Control System (the Board of Directors, the Control and Risks Committee, the Executive Director in charge of the Internal Control System, the Supervisory Body as per Legislative Decree no. 231, the Internal Audit Function, the Corporate Accounting Reporting Officer, the Risk Management Function, the Compliance Function, and the Anti-Money Laundering Function) are described in detail in the 'Report on Corporate Governance and Shareholding Structure', prepared pursuant to the third paragraph of article 123 bis of Italian Legislative Decree 58 of 24 February 1998 (Consolidated Law on Finance) as amended, approved by the Board of Directors on 02 February 2016 and published on the Bank's Internet website in the Corporate Governance section.

Section 1 – Banking Group risks

1.1 Credit risk

Qualitative information

General aspects.

The banking group currently operates in the following fields:

- Short-term trade receivable financing and acquisition of receivables due from the Public Administration (Factoring operations)
- Corporate lending and structured finance (Lending operations)
- Finance and operating leases[10] (Leasing operations)
- Unsecured loans to retail entrepreneurs
- Purchasing and managing non-performing loan portfolios
- Purchasing and managing tax receivables

At the end of 2016, Banca IFIS acquired the former GE Capital Interbanca Group and expanded its core business to corporate lending, structured finance, and finance and operating leases. The clients of the corporate lending and structured finance segments are usually corporations. The receivables portfolio of the company operating in the leasing segment is highly granular, with a limited number of exposures concentrated on individual clients. It serves entities with different legal forms, including corporations, partnerships, co-operatives, and sole proprietorships.

[10] Operating leases are made through a company that is not part of the banking group—as defined by supervisory regulations—IFIS rental services.

The factoring business is characterised by the direct assumption of risks related to granting advances and loans, as well as guarantees, if any, on trade receivables of mainly small- and medium-sized enterprises. As part of its operations, the factoring segment purchases receivables due from public health service and local authorities outright.

Concerning the acquisition of distressed financial (Distressed Retail Loans, i.e. non-performing loans), trade and tax receivables, the sellers are usually banks, financial institutions, insolvency proceedings, and businesses.

Given the particular business of the Group's companies, credit risk is the most important element to consider as far as the general risks assumed by the Group are concerned. Maintaining an effective credit risk management is a strategic objective for the Banca IFIS Group, pursued by adopting integrated tools and processes that ensure proper credit risk management at all stages (preparation, lending, monitoring and management, and interventions on troubled loans).

In 2016 there were no new significant transactions in Italian government bonds. At the end of 2016, the securities portfolio's overall average residual life was approximately 15 months, and the maximum duration per individual asset was 40 months.

The Banca IFIS Group does not carry out any operation involving credit derivatives.

Credit risk management policies.

Organisational aspects

Credit risks in financing operations through Factoring, Lending and Leasing directly arise from financing the business customers and guaranteeing them, when requested, against default. Credit risk management takes place during two specific phases of the credit process: the initial credit assessment phase and, in case of a positive outcome, throughout the entire relationship with the customers. In order to increase the quality of its receivables portfolio, Banca IFIS deemed it appropriate to centralise the main phases related to risk taking and control as part of factoring operations in the Bank's Head Office, allowing for a high degree of homogeneity in lending operations and to strictly monitor individual positions through the specialisation of resources and separation of functions at all decision-making levels. In carrying out their operations, the subsidiaries Interbanca and its subsidiaries, as well as the Polish subsidiary IFIS Finance, can independently take certain decisions within the operational and organisational limits defined by the Parent Company Banca IFIS.

The first stage of the risk management process involves an organisational structure responsible for assessing the creditworthiness of borrowers. A multi-level system of delegations and decision-making powers allows the most senior analysts to assume increasingly growing, but still modest, risks. Greater risks can be taken by Area or Business Unit managers. As for higher amounts, powers are attributed solely to the Committee or bodies with management or strategic supervision functions.

Banca IFIS spa's branches do not have decision-making powers as for the assumption of credit risk. Rather, they have the responsibility of doing business in the local area and managing relationships with customers. Therefore, within the limits and with the procedures established by the Head Office's competent bodies, Branches manage ordinary operations with customers under the constant monitoring of the central structures.

At the Group's various companies, qualified and specialised staff follow all stages of a relationship: from the administrative management of the receivables to their collection, from the identification of anomalies, if any, to the verification and definition of the most appropriate actions to recover the debt.

As already specified, the Banca IFIS Group purchases also distressed receivables in the following business areas:

- tax receivables usually acquired from insolvency proceedings and due from tax authorities;
- financial receivables acquired from consumer credit companies, banks and leasing companies;
- trade receivables acquired from insolvency proceedings and companies.

Purchasing the different types of receivables is a fundamental aspect of the credit process. Prior to this phase, highly-skilled analysts carry out a thorough due diligence of the portfolio being transferred and the relevant organisational impact. Once the due diligence is completed, the Group sets the terms and conditions for offering/acquiring the receivables portfolio and how to manage it (individual or collective method), assessing the relevant impact on operating structures.

In order to collect distressed retail loans (NPL Area receivables), the Banca IFIS Group relies on an in-house legal office, a widespread and tested network of credit collection companies operating throughout Italy, and a network of agents. This structure, together with several lawyers located near the courts, ensures the utmost flexibility as well as effective and timely actions to recover all types of receivables.

The Banca IFIS Group pays particular attention to the concentration of credit risk with reference to all the Group's companies, both at an individual and consolidated level. Banca IFIS's Board of Directors has delegated the Top Management to take action to contain major risks. In line with the Board of Directors' instructions, all positions at risk which significantly expose the Group, even if amounting to less than 10% of regulatory capital, are systematically monitored. In addition, the single-name concentration risk is monitored at the Group level through the Granularity Adjustment (GA). The algorithm used to calculate the Granularity Adjustment is the one defined in Annex B, Title III of Circular no. 285 of 17 December 2013.

Management, measurement and control systems

As part of financing operations through Factoring, Lending and Leasing, credit risk is constantly monitored by means of procedures and instruments allowing to rapidly identify particular anomalies.

Banca IFIS has instruments and procedures in place allowing to specifically evaluate and monitor risks for each credit facility. In particular:

- it assesses the creditworthiness of the counterparties involved in the financing transaction;
- it identifies the risk in each individual financing transaction;
- it sets an adequate pricing for each class of risk right from the initial commercial analysis of the feasibility of the transaction.

Following a positive assessment and after starting to work with the customer, the bank continues to monitor the relevant credit risk using selected databases. The lending decision always takes into account the overall exposure to the counterparty (or related groups, if any).

As for Lending operations, loans to customers are monitored by the relevant areas, which are responsible for constantly and pro-actively monitoring borrowers based on:

- the review of credit positions
- the assessment of compliance with contractual covenants
- the overall monitoring of risk factors that could affect the borrower's ability to repay the loan.

As for Leasing operations, in 2011 the sector activated an automated universal data (AUD) system that can propose an outcome to the credit analyst, supporting him or her in making a decision. Concerning the Auto Leasing portfolio, the sector also analyses the quality of sales channels in order to divide the network of agents into clusters and adequately price future volumes.

As for the operations of the NPL Area and the purchases of tax receivables arising from insolvency proceedings, in order to ensure increasingly efficient control over the operations undertaken, the Group has continued to invest in IT systems dedicated to monitoring those portfolios.

Purchases of distressed retail loans are particularly significant. Those loans are classified as from their acquisition under non-performing exposures. These are financial receivables (purchased from consumer credit companies, banks and leasing companies) and, to a lesser extent, trade receivables (acquired from insolvency proceedings and companies) which, in light of the characteristics of the receivable and the invoice seller, are duly classified in portfolios homogeneous in terms of management and collection methods (judicial and non-judicial). In particular, the Bank implements the following methods:

- collective management, characterised by non-judicial collection operations carried out mainly by specialist collection agencies, the network of professionals-agents, and the call centre;
- individual management, characterised by judicial collection operations.

As for the credit risk associated with the bond portfolio, which consists exclusively of Italian government bonds, the Banca IFIS Group constantly monitors the credit quality. The Risk Management function periodically reports to the bank's Board of Directors and Top Management on the composition of the bond portfolio.

As for Basel 2 principles for calculating capital requirements against first-pillar credit risks, Banca IFIS chose to adopt the Standardised Approach.

Credit risk mitigation techniques

As part of factoring operations, when the type and/or quality of factored receivables do not fully satisfy requirements or, more generally, the invoice seller is not sufficiently creditworthy, the bank’s established practice is to hedge the credit risk assumed by the Group by obtaining additional surety bonds from the shareholders or directors of the invoice seller.

As for the account debtors in factoring relationships, wherever the Bank believes that the elements available to assess the account debtor do not allow to properly measure/assume the related credit risk, or the proposed amount of risk exceeds the limits identified during the debtor’s assessment, the Bank adequately hedges the risk of default of the account debtor. Guarantees issued by correspondent factors and/or insurance policies underwritten with specialised operators are the main hedge against non-domestic account debtors in non-recourse operations.

As for the Lending sector, based on the peculiarities of its products, it demands adequate collateral according to the counterparty's standing as well as the term and type of the facility. Said collateral includes mortgage guarantees, liens on plant and equipment, pledges, surety bonds, credit insurance, and collateral deposits.

As for Finance Leases, the credit risk is mitigated by the leased asset. The lessor maintains the ownership until the purchase option is exercised, ensuring a higher recovery rate in the event the client defaults.

As for operations concerning distressed loans (NPL Area receivables and purchases of tax receivables arising from insolvency proceedings) and the relevant business model, generally no action is taken to hedge credit risks.

Non-performing exposures

Non-performing loans are classified essentially according to the Bank of Italy's criteria.

Concerning factoring operations, the relevant Head Office units constantly monitor clients. If the situation deteriorates or problems emerge, the Troubled Loans Area takes over the management of the exposures. Based on available information, it also considers whether or not to classify the counterparty as unlikely to pay or bad loan. Managing non-performing exposures, either unlikely to pay or bad loans, normally falls under the responsibility of the Troubled Loans Area, which takes the most appropriate actions to hedge and recover debts, periodically reporting to the Top Management and the Board of Directors. Individual value adjustments, upon proposal by the Troubled Loans Area, are assessed by the Top Management and submitted to the Board of Directors for approval.

A similar process is formally in place also for IFIS Finance Sp. Z o. o.. Nonetheless, it should be noted that the subsidiary has only a marginal amount of non-performing exposures.

Concerning Lending, Workout & Credit Recovery, this ensures that the classifications of distressed receivables in the risk categories established by supervisory provisions and recognised as non-performing exposures are regularly updated. The Bank manages non-performing loans by:

- taking any action considered necessary to collect debts, hiring independent attorneys together with the *Legal & Regulatory* function if required.
- taking any non-judicial action considered necessary to collect the debt, including selling and restructuring the loans.

In this regard, the Bank performs the impairment test using the DCF (Discounted cash flow) method in the case of distressed borrowers that are still operational, or the LV (Liquidation value) method when the value of collateral represents a certain source of recovery. The Bank regularly updates the value of the mortgage based on independent appraisals adjusted to account for any losses arising from the realisation.

Concerning Leasing operations, the debt collection process is handled by the Collection office, which, after consulting with the Banking Group's various Business Units in the case of common clients, identifies the positions to be classified as bad loans among the entities with one of the contractual statuses established by internal policies.

Virtually all of NPL area receivables are classified under non-performing exposures. Purchasing receivables at amounts well below their par value and the fact that cash flows are generally higher than the price paid minimise the risk of losses.

As for non-performing exposures purchased and not yet collected, the overall outstanding book value of the portfolio is approximately 9.659 million Euro, considering the sales completed at the end of the year. At the time of purchase, the historical book value of these receivables was approximately 9.846 million Euro, and they were acquired for approximately 479 million Euro, i.e. an average price equal to approximately 4,3% of the historical book value. In 2016, approximately 3.091 million Euro were acquired for approximately 195 million Euro, i.e. an average price equal to 6,63%. The overall portfolio of non-performing exposures purchased and not yet collected has an overall weighted average life of around 24 months compared to their acquisition date.

Furthermore, it should be noted that overall at the end of 2016 there were approximately 102 million Euro in outstanding bills of exchange (the amount does not include, for instance, nearly 366 million Euro in outstanding settlement plans).

In January, June, July, August and December 2016, the bank completed five sales of portfolios to leading players whose business is purchasing NPLs. Overall, Banca IFIS sold receivables with an outstanding book value of nearly 1,6 billion Euro, consisting of approximately 233 thousand position, for an overall consideration of about 112 million Euro.

The figures at 31 December 2016 do not include the receivables involved in one of the sales completed at the end of December, when the Bank accepted the buyer's binding offer, with an outstanding par value of approximately 744 million Euro. The sale was finalised on 16 January 2017.

Concerning the changes in amortised cost other than impairment related to the bad loans of the NPL segment, in 2015 the Bank started classifying them no longer under item 130 Net impairment losses/reversals on receivables, but rather under item 10 Interest income.

Future cash flows from non-judicial operations are simulated using a statistical model, based on the proprietary portfolio's historical evidence, segmented by different drivers (the model is based on curves of breakdown over time calculated using proprietary historical technical bases). During 2015, the Bank reviewed the cash flow simulation model, as debt collection operations have significantly changed over the years. The revised model uses updated historical time series (2000-2015) and ensures that different types of collection instruments with similar characteristics are treated consistently. In addition, it allows to greatly reduce processing times.

As for individual operations, the cash flows are partly the result of the collection estimated by the manager and, only for the positions for which a court has issued a garnishment order, are calculated using a statistical model based on the data gathered from the proceedings. As in the case of collective operations, these estimates account for credit risk.

Quantitative information

The gross exposures reported in the following tables account for the positive impact of the breakdown of the difference between the fair value as measured in the business combination and the carrying amount of the receivables recognised by the subsidiaries over time.

A. Credit quality

A.1 Non-performing and performing loans: amounts, impairment losses, trend, economic and geographical distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (book values)

Portfolio/Quality	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Performing exposures	Total
1. Available for sale financial assets					353.151	353.151
2. Held to maturity financial assets						-
3. Due from banks				1.901	1.391.457	1.393.358
4. Loans to customers	385.746	448.975	137.440	360.764	4.595.287	5.928.212
5. Financial assets at fair value						-
6. Financial assets under disposal						-
Total 31.12.2016	**385.746**	**448.975**	**137.440**	**362.665**	**6.339.895**	**7.674.721**
Total 31.12.2015	**190.286**	**234.546**	**58.214**	**883.405**	**5.382.869**	**6.749.320**

Equity securities and UCITS units are not included in this table.

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

Portfolio/Quality	Non-performing loans			Performing loans			Total (net exposure)
	Gross exposure	Specific value adjustments	Net exposure	Gross exposure	Portfolio value adjustments	Net exposure	
1. Available for sale financial assets	15.077	15.077	-	353.151	-	353.151	353.151
2. Held to maturity financial assets	-	-	-	-	-	-	-
3. Due from banks	-	-	-	1.393.374	16	1.393.358	1.393.358
4. Loans to customers	1.928.431	956.270	972.161	5.003.316	47.265	4.956.051	5.928.212
5. Financial assets at fair value	-	-	-	X	X	-	-
6. Financial assets under disposal	-	-	-	-	-	-	-
Total 31.12.2016	**1.943.508**	**971.347**	**972.161**	**6.749.841**	**47.281**	**6.702.560**	**7.674.721**
Total 31.12.2015	**727.780**	**244.734**	**483.046**	**6.277.698**	**11.424**	**6.266.274**	**6.749.320**

Equity securities and UCITS units are not included in this table.

In compliance with paragraph 37, letter a) of IFRS 7 “Financial Instruments: Disclosures”, here below is the maturity analysis for past due amounts relating to performing loans – Other loans.

(in thousands of Euro)	31.12.2016	31.12.2015
Past due up to 3 months	148.661	387.750
Past due > 3 months < 6 months	38.021	159.771
Past dye > 6 months < 1 year	49.211	112.691
Past due > 1 year	124.870	224.403
Total	**360.763**	**884.615**

A.1.3 Banking group - On- and off-balance-sheet exposures to banks: gross and net amounts and past due buckets

Types of loans/ amounts	Gross exposure					Specific net value adjustments	Portfolio value adjustments	Net exposure
	Non-performing loans				Performing loans			
	up to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 year				
A. ON-BALANCE-SHEET EXPOSURES								
a) Bad loans	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
) Non-performing past due exposures	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
d) Performing past due exposures	X	X	X	X	-	X	-	-
- of which: forborne exposures	X	X	X	X	-	X	-	-
e) Other performing exposures	-	X	X	-	1.391.146	X	-	1.391.146
- of which: forborne exposures	X	X	X	X		X	-	
Total A	**-**	**-**	**-**	**-**	**1.391.146**	**-**	-	**1.391.146**
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	-	-	-	-	X	**-**	X	X
b) Performing	-	X	X	-	6.864	X	**-**	6.864
Total B	**-**	**-**	**-**	**-**	**6.864**	**-**	**-**	**6.864**
TOTAL A+B	**-**	**-**	**-**	**-**	**1.398.010**	**-**	**-**	**1.398.010**

On-balance-sheet exposures include all on-balance-sheet financial assets due from banks, regardless of the portfolio they are included in (held for trading, available for sale, held to maturity, loans and receivables etc.).

A.1.6 Banking group - On- and off-balance-sheet exposures to customers: gross and net amounts and past due buckets

Types of loans/amounts	Gross exposure					Specific net value adjust-ments	Portfolio value ad-justments	Net expo-sure
	Non-performing loans				Performing loans			
	up to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 year				
A. ON-BALANCE-SHEET EXPO-SURES								
a) Bad loans	167.560	1	15.856	939.674	X	737.534	X	385.557
- of which: forborne exposures	11.777	-	-	87.929	X	58.130	X	41.576
b) Unlikely to pay	189.223	2.540	24.987	421.797	X	189.628	X	448.919
- of which: forborne exposures	135.491		11.209	140.748	X	116.192	X	171.256
) Non-performing past due exposures	97.954	10.575	6.068	39.168	X	18.237	X	135.529
- of which: forborne exposures	1.471	-	-	-	X	15	X	1.456
d) Performing past due exposures	X	X	X	X	366.357	X	5.594	360.763
- of which: forborne exposures	X	X	X	X		X	-	-
e) Other performing exposures	X	X	X	X	4.874.252	X	39.193	4.835.059
- of which: forborne exposures	X	X	X	X	44.265	X	1.427	42.838
Total A	**454.737**	**13.116**	**46.911**	**1.400.639**	**5.240.609**	**945.399**	**44.787**	**6.165.827**
B. OFF-BALANCE-SHEET EXPO-SURES								
a) Non-performing	52.831	-	-	-	X	17.633	X	35.198
b) Performing	X	X	X	X	419.361	X	159	419.202
Total B	**52.831**	**-**	**-**	**-**	**419.361**	**17.633**	**159**	**454.400**
TOTAL A+B	**507.568**	**13.116**	**46.911**	**1.400.639**	**5.659.970**	**963.032**	**44.946**	**6.620.227**

On-balance-sheet exposures include all on-balance-sheet financial assets due from customers, regardless of the portfolio they are included in (available for sale, held to maturity, loans and receivables).

A.1.7 Banking group - On-balance-sheet exposures to customers: trends in gross non-performing exposures

Type/Categories	Bad loans	Unlikely to pay	Past due loans
A. Opening gross exposure	**414.740**	**253.252**	**59.788**
- of which: transferred and not derecognised	-	-	-
B. Increases	**925.835**	**678.549**	**578.056**
B.1 inflows from performing loans	672	34.168	460.111
B.2 transfers from other non-performing loan categories	65.122	38.018	15
B.3 other increases	316.832	266.507	70.811
Business combinations	543.209	339.856	47.119
C. Reductions	**217.484**	**293.254**	**484.078**
C.1 outflows to performing loans	66	638	299.694
C.3 derecognitions	25.429	21.706	1.317
C.3 collections	61.028	100.400	106.305
C.4 collections from sales	21.067	9.037	-
C.5 losses on disposal	-	-	-
C.4 transfers to other non-performing loan categories	1.220	62.183	39.740
C.5 other reductions	108.674	99.290	37.022
D. Closing gross exposure	**1.123.091**	**638.547**	**153.766**
- of which: transferred and not derecognised	-	-	-

On-balance-sheet exposures include all on-balance-sheet financial assets due from customers, regardless of the portfolio they are included in (available for sale, held to maturity, loans and receivables).

Total **net non-performing exposures** amounted to 972,2 million Euro, compared to 483,0 million Euro at the end of 2015 (+101,3%).

Total **bad loans** to customers at 31 December 2016, net of value adjustments, totalled 385,7 million Euro, against 190,3 million Euro at 31 December 2015 (+102,7%). The change was essentially due to the purchases made by the NPL Area during the year; the Trade Receivables segment reported a 2,4% increase. The net bad loans of the new Corporate Banking and Leasing sectors totalled 27,3 and 6,2 million Euro, respectively.

At 31 December 2016, **unlikely to pay** amounted to 449,0 million, compared to 234 million Euro in 2015 (+91,4%), of which 241,5 million Euro related to the NPL Area (+23,9 million Euro from the end of 2015), 124,7 million Euro to the Corporate Banking sector, and 13,6 million Euro to the Leasing sector. The Trade Receivables segment's unlikely to pay were up 28,7%.

Net non-performing past due exposures totalled 137,4 million Euro at 31 December 2016, compared with 58,2 million Euro in December 2014 (+136,1%). The increase was largely attributable to past due loans due from the Public Administration that were purchased outright, rising from 1,2 million Euro at the end of 2015 to 46,8 million Euro at the end of 2016. Changes in non-performing past due exposures are part of Banca IFIS's business model. In addition, the Leasing and Corporate Banking sectors reported 17,4 million Euro and 1,7 million Euro worth of past due loans, respectively.

A.1.7bis Banking group - On-balance-sheet exposures to customers: trends in gross forborne exposures broken down by credit quality

Type/Categories	Forborne exposures: non-performing	Forborne exposures: performing
A. Opening gross exposure	**60.893**	**2.977**
- of which: transferred and not derecognised	-	-
B. Increases	**417.504**	**54.246**
B.1 inflows from non-forborne performing exposures	3.079	89
B.2 inflows from forborne performing exposures	-	X
B.3 inflows from non-performing forborne exposure	X	321
B.4 other increases	149.339	13.789
Business combinations	265.086	40.047
C. Reductions	**89.772**	**12.958**
B.1 outflows to non-forborne performing exposures	X	-
B.2 outflows to forborne performing exposures	321	X
B.3 outflows to non-performing forborne exposure	X	-
C.4 derecognitions	1	-
C.5 collections	48.460	12.441
C.6 collections from sales	10.456	-
C.7 losses on disposal	-	-
C.8 other reductions	30.534	517
D. Closing gross exposure	**388.625**	**44.265**
- of which: transferred and not derecognised	-	-

A.1.8 Banking group - On-balance-sheet exposures to customers: trends in overall impairment losses/reversals

Type/Categories	Bad loans		Unlikely to pay		Non-performing past due exposures	
	Total	Of which forborne exposures	Total	Of which forborne exposures	Total	Of which forborne exposures
A. Opening balance of total impairment losses/ reversals of impairment losses	**224.454**	**885**	**18.706**	**5.406**	**1.574**	**144**
- of which: transferred and not derecognised	-	-	-	-	-	-
B. Increases	**534.984**	**57.539**	**194.656**	**112.236**	**21.365**	**15**
B.1 Impairment losses	18.161	6.243	22.194	6.481	158	-
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other non-performing loan categories	13.138	2.604	905	144	2.624	-
B.4 other increases	1.436	3.016	215	62	240	-
Business combinations	502.249	45.676	171.342	105.549	18.343	15
C. Reductions	**21.904**	**294**	**23.734**	**1.450**	**4.702**	**144**
C.1 impairment reversals from measurement	2.383	7	3.594	2	253	-
C.2 impairment reversals from collection	109	19	186	86	111	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 derecognitions	18.485	-	2.923	1	3.566	-
C.5 transfers to other non-performing loan categories	748	-	15.424	2.604	495	144
C.6 other reductions	179	268	1.607	1.065	277	-
D. Closing balance of total impairment losses/ reversals of impairment losses	**737.534**	**58.130**	**189.628**	**116.192**	**18.237**	**15**
- of which: transferred and not derecognised	-	-	-	-	-	-

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of on- and off-balance-sheet exposures by class of external rating

For the purposes of calculating capital requirements against credit risk, the Banca IFIS Group uses the external credit assessment institution (ECAI) Fitch Ratings exclusively for the positions categorised within "Exposures to Central Governments and Central Banks" of Banca IFIS, and the ratings agency Moody's for the positions categorised within "Exposures to Central Governments and Central Banks" of the former GE Capital Interbanca Group; no external ratings are used for the other asset classes. In light of the composition of the Group's assets, external ratings are used exclusively for the portfolio of government bonds.

A.2.2 Distribution of on- and off-balance-sheet exposures by class of internal rating

The Bank does not use internal ratings for the purposes of calculating capital absorption. Banca IFIS spa has implemented an Internal Rating System for domestic businesses, which was developed using proprietary databases and consists of:

- a "financial" module, to assess the company's operating/financial soundness;
- a "central credit register" module, presenting the evolution of counterparty risk vis-à-vis the banking industry;
- an "internal performance" module, monitoring the performance of the factoring relationships between the counterparty and the Bank—especially as far as the account debtor is concerned.

A.3 Distribution of guaranteed exposures by guarantee type

A.3.2 Banking group - Guaranteed exposures to customers

	Net exposure	Collateral guarantees (1)				Personal guarantees (2)									**Total (1)+(2)**
						Credit derivatives					Unsecured loans				
							Other derivatives								
		Property Mortgages	Property Finance Leases	Securities	Other collateral guar-antees	CLN	Governments and central banks	Other public entities	Banks	Other entities	Governments and central banks	Other public entities	Banks	Other entities	
1. Guaranteed on-balance-sheet exposures:	**1.156.982**	**533.463**	**-**	**21.863**	**101.675**	**-**	**-**	**-**	**65.634**	**-**	**-**	**-**	**3.310**	**273.338**	**999.283**
1.1 totally guaranteed	870.723	506.315	-	8.124	63.747	-	-	-	65.634	-	-	-	3.310	221.392	868.522
- of which non-performing	139.137	97.996	-	120	3.094	-	-	-	-	-	-	-	-	37.926	139.136
1.2 partially guaranteed	286.259	27.148	-	13.739	37.928	-	-	-	-	-	-	-	-	51.946	130.761
- of which non-performing	54.395	11.430	-	67	3.093	-	-	-	-	-	-	-	-	13.556	28.146
2. Guaranteed off-balance-sheet exposures:	**23.711**	**1.500**	**-**	**3.498**	**21**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3.662**	**8.681**
2.1 totally guaranteed	7.668	1.172	-	2.836	-	-	-	-	-	-	-	-	-	3.659	7.667
- of which non-performing	3.666	15	-	-	-	-	-	-	-	-	-	-	-	3.651	3.666
2.2 partially guaranteed	16.043	328	-	662	21	-	-	-	-	-	-	-	-	3	1.014
- of which non-performing	10.891	-	-	-	17	-	-	-	-	-	-	-	-	3	20

B. Concentration and distribution of exposures

B.1 Banking group - Distribution of on- and off-balance-sheet exposures to customers by segment (book value)

Exposures/counterparties	Governments			Other public entities			Financial institutions			Insurance companies			Non-financial companies			Other entities		
	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal	Net exposure	Specific impairment losses/reversal	Portfolio impairment losses/reversal
A. On-balance-sheet exposures																		
A.1 Bad loans	-	-	X	3.695	2.162	X	1.178	49.874	X	-	-	X	75.974	623.747	X	304.710	61.751	X
- of which forborne exposures			X			X	1.032	8.010	X			X	7.780	50.120	X	32.764		X
A.2 Unlikely to pay	332	146	X	2.862	627	X	28.853	7.042	X	-	-	X	166.710	161.958	X	250.162	19.855	X
- of which forborne exposures			X	2.161	621	X	2.407	2.578	X			X	113.920	112.993	X	52.768		X
A.3 Non-performing past due exposures	11.152	3	X	35.674	10	X	36	13	X	-	-	X	75.738	6.519	X	12.928	11.692	X
- of which forborne exposures			X			X			X			X	1.456	15	X			X
A.4 Performing exposures	448.162	X	33	799.917	X	121	72.205	X	927	-	X	-	3.495.400	X	32.464	380.138	X	11.242
- of which forborne exposures		X			X			X			X		42.852	X	1.413		X	
Total A	**459.646**	**149**	**33**	**842.148**	**2.799**	**121**	**102.272**	**56.929**	**927**	**-**	**-**	**-**	**3.813.823**	**792.224**	**32.464**	**947.938**	**93.298**	**11.242**
B. Off-balance-sheet exposures																		
B.1 Bad loans	-	-	X	-	-	X	201	-	X	-	-	X	-	-	X	-	-	X
B.2 Unlikely to pay	-	-	X	-	-	X	-	13.292	X	-	-	X	25.060	4.341	X	-	-	X
B.3 Other non-performing exposures	-	-	X	-	-	X	-	-	X	-	-	X	9.937	-	X	-	-	X
A.4 Performing exposures	-	X	-	589	X	-	42.150	X	-	56	X	-	460.324	X	159	328	X	-
Total B	**-**	**-**	**-**	**589**	**-**	**-**	**42.351**	**13.292**	**-**	**56**	**-**	**-**	**495.321**	**4.341**	**159**	**328**	**-**	**-**
Total (A+B) 31.12.2016	**459.646**	**149**	**33**	**842.737**	**2.799**	**121**	**144.623**	**70.221**	**927**	**56**	**-**	**-**	**4.309.144**	**796.565**	**32.623**	**948.266**	**93.298**	**11.242**
Total (A+B) 31.12.2015	**3.321.961**	**84**	**32**	**902.332**	**2.506**	**761**	**137.211**	**3.830**	**47**	**-**	**-**	**-**	**2.261.542**	**228.397**	**10.505**	**359.404**	**9.917**	**97**

B.2 Banking group - Geographical distribution of on- and off-balance-sheet exposures to customers (book value)

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet exposures										
A.1 Bad loans	384.561	733.010	830	3.190	10	5	2	-	154	1.329
A.2 Unlikely to pay	444.605	180.411	4.155	6.309	152	2.908	-	-	7	-
A.3 Non-performing past due expo-	134.414	18.237	1.115	-	-	-	-	-	-	-
A.4 Performing exposures	4.921.964	42.167	199.435	555	59.888	1.939	13.889	123	646	3
Total A	**5.885.544**	**973.825**	**205.535**	**10.054**	**60.050**	**4.852**	**13.891**	**123**	**807**	**1.332**
B. Off-balance-sheet exposures										
B.1 Bad loans	201	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	25.060	4.342	-	13.291	-	-	-	-	-	-
B.3 Other non-performing exposures	9.937	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	355.582	159	62.707	-	18	-	787	-	53	-
Total B	**390.780**	**4.501**	**62.707**	**13.291**	**18**	**-**	**787**	**-**	**53**	**-**
Total (A+B) 31.12.2016	**6.276.324**	**978.326**	**268.242**	**23.345**	**60.068**	**4.852**	**14.678**	**123**	**860**	**1.332**
Total (A+B) 31.12.2015	**6.796.801**	**250.609**	**177.847**	**5.506**	**795**	**10**	**5.957**	**30**	**690**	**3**

B.3 Banking group – Geographical distribution of on- and off-balance-sheet exposures to banks (book value)

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal
A. On-balance-sheet exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due expo-	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	1.350.332	-	24.831	-	15.983	-	-	-	-	-
Total A	**1.350.332**	**-**	**24.831**	**-**	**15.983**	**-**	**-**	**-**	**-**	**-**
B. Off-balance-sheet exposures										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other non-performing expo-	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	740.828	-	1.479	-	-	-	-	-	-	-
Total B	**740.828**	**-**	**1.479**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31.12.2016	**2.091.160**	**-**	**26.310**	**-**	**15.983**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31.12.2015	**85.062**	**-**	**13.345**	**-**	**619**	**-**	**-**	**-**	**-**	**-**

B.4 Major exposures

		31.12.2016	31.12.2015
a)	Book value	2.391.848	3.552.701
b)	Weighted amount	660.238	195.918
c)	Number	4	5

The overall weighted amount of major exposures at 31 December 2016 consisted of 272,2 million Euro in loans to customers and 388,0 million Euro in tax assets.

Disclosure regarding Sovereign Debt

On 5 August 2011, CONSOB (drawing on ESMA document no. 2011/266 of 28 July 2011) issued Communication no. DEM/11070007 on disclosures by listed companies of their exposures to sovereign debt and market performance, the management of exposures to sovereign debt, and their operating and financial impact.

In compliance with the provisions of the aforementioned communication, it should be noted that at 31 December 2016 the book value of exposures to sovereign debt(1) represented by debt securities was 353,2 million Euro, and consisted entirely of Italian government bonds; these securities, with a par value of 350 million Euro, are classified under Available for sale (AFS) financial assets and included in the banking book; the weighted residual average life of these securities is approximately fifteen months.

The fair values used to measure the exposures to sovereign debt at 31 December 2016 are considered level 1, and the exposures concerned were not impaired at that date. For further details on the measurement method applied and the classification, please refer to the sections on Accounting policies and Information on the consolidated statement of financial position.

Pursuant to the CONSOB Communication, besides the exposure to sovereign debt, it is also necessary to consider receivables due from the Italian National Administration, which at 31 December 2016 totalled 948,6 million Euro, with 106,5 million Euro due from the “central government” (of which 75 million Euro relating to tax receivables) and 842,1 million Euro due from “other public bodies”.

The valuation reserve, gross of the tax effect related to the overall position in Italian government bonds, went from a positive 1,4 million Euro (0,9 million Euro net of the tax effect) at the end of first half of 2016 to a positive value of approximately 1,0 million Euro at 16 March 2017 (0,7 million Euro net of the tax effect).

(1) As indicated in the ESMA document, ‘exposures to sovereign debt’ refer to bonds issued by, and loans given, to central and local government and governmental bodies.

C. Securitisation transactions
C.1 Securitisation transactions

Qualitative information

IFIS ABCP Programme securitisation

On 7 October 2016, Banca IFIS launched a three-year revolving securitisation of trade receivables due from account debtors. After Banca IFIS (originator) initially reassigned the receivables for 1.254,3 million Euro, the vehicle named IFIS ABCP Programme S.r.l. issued 850 million Euro worth of senior notes subscribed for by the investment vehicles owned by the banks that co-arranged the transaction. An additional tranche of senior notes, with a maximum par value of 150 million Euro—of which investors initially subscribed for 19,2 million Euro, and that was subsequently adjusted based on the composition of the assigned portfolio—was subscribed for by Banca IFIS, which will use them as collateral in refinancing operations with third parties. The difference between the value of the receivables portfolios and the senior notes issued represents the credit granted to the notes' bearers, which consists in a deferred purchase price.

The transaction was arranged in order to raise part of the funding for the acquisition of the former GE Capital Interbanca Group.

Banca IFIS acts as servicer, performing the following tasks:

- following collection operations and monitoring cash flows on a daily basis;
- reconciling the closing balance at every cut off date;
- verifying, completing and submitting the service report with the information on the securitised portfolio requested by the vehicle and the banks at every cut off date.

As part of the securitisation programme, the Bank sends the amount it collects to the vehicle on a daily basis, while the new portfolio is assigned approximately four times each month; this ensures a short time lapse between the outflows from the Bank and the inflows associated with the payment of the new assignments.

Only part of the securitised receivables due from account debtors are recognised as assets—especially for the portion that the Bank has purchased outright, resulting in the transfer of all risks and rewards to the buyer. Therefore, the tables in the quantitative disclosure show only this portion of the portfolio.

In compliance with IASs/IFRSs, currently the securitisation process does not involve the substantial transfer of all risks and rewards, as it does not meet the derecognition requirements set by IAS 39. In addition, the vehicles were consolidated in order to provide a comprehensive view of the transaction.

The maximum theoretical loss for Banca IFIS is represented by the losses that could potentially arise within the portfolio of assigned receivables, and the impact would be the same as if the securitisation programme did not exist; therefore, the securitisation has been accounted for as follows:

- the securitised receivables purchased outright were recognised under "loans to customers", subline item "factoring";
- the funds raised from the issue of senior notes subscribed for by third parties were recognised under "outstanding securities";
- the interest on the receivables was recognised under "interest on loans to customers";
- the interest on the notes was recognised under "interest due and similar expenses", subline item "outstanding securities";
- the arrangement fees were fully recognised in profit or loss in the current year.

At 31 December 2016, the interest on senior notes recognised in profit or loss amounted to 2,2 million Euro (at a 1,15% rate). The up-front costs incurred for these transactions amounted to 0,3 million Euro in commission expense and 0,5 million Euro in operating costs.

Indigo Lease securitisation

In December 2016, IFIS Leasing S.p.A. (originator) finalised a securitisation that involved selling a portfolio of performing loans totalling 489 million Euro to the special purpose vehicle Indigo Lease S.r.l.

The transaction was arranged in order to raise part of the funding for the acquisition of the former GE Capital Interbanca Group.

The securitisation was rated by Moody's and DBRS, which will also perform the annual monitoring throughout the term of the transaction.

The initial purchase price of the assigned receivables portfolio, equal to 489 million Euro, was paid by the vehicle to IFIS Leasing S.p.A. using funds raised from the issue of senior notes for an amount of 366 million Euro. These received an AA3 (sf) rating from Moody's and an AA (sf) rating from DBRS, and their redemption is connected to the collections realised on the receivables portfolio. In addition, the vehicle issued 138 million Euro in junior notes that were acquired by IFIS Leasing S.p.A. and did not receive a rating.

IFIS Leasing S.p.A. acts as servicer, performing the following tasks:

- following collection operations and monitoring cash flows on a daily basis;
- reconciling the closing balance every month;
- preparing the monthly report with the information about the financial position and performance of the securitised portfolio for the vehicle;
- verifying, completing and submitting the service report with the information on the securitised portfolio requested by the vehicle and the banks on a monthly and quarterly basis.

In compliance with IASs/IFRSs, currently the securitisation process does not involve the substantial transfer of all risks and rewards, as it does not meet the derecognition requirements set by IAS 39. In addition, the vehicles were consolidated in order to provide a comprehensive view of the transaction.

The maximum theoretical loss for IFIS Leasing S.p.A. is represented by the losses that could potentially arise within the portfolio of assigned receivables, and the impact would be the same as if the securitisation programme did not exist; therefore, the securitisation has been accounted for as follows:

- the securitised lease agreements were recognised under “loans to customers”, subline item “finance leases”
- the funds raised from the issue of senior notes subscribed for by third parties were recognised under “outstanding securities”;
- the interest on lease agreements was recognised under “interest on loans to customers”
- the interest on the notes was recognised under “interest due and similar expenses”, subline item “outstanding securities”;
- the arrangement fees were fully recognised in profit or loss in the current year.

At 31 December 2016, the interest on the senior notes recognised in profit or loss amounted to 0,1 million Euro (at a 2,43% rate). The up-front costs incurred for these transactions amounted to 8,4 million Euro, including 5,8 million Euro in commission expense and 2,6 million Euro in operating costs. These costs were incurred in part by the vehicle and in part by the Parent Company Banca IFIS.

Indigo Loan securitisation

In December 2016, Interbanca (originator) finalised a securitisation that involved selling a portfolio of performing loans totalling 406 million Euro to the special purpose vehicle Indigo Lease S.r.l.

The transaction was arranged in order to raise part of the funding for the acquisition of the former GE Capital Interbanca Group.

The initial purchase price of the assigned receivables portfolio, equal to 406 million Euro, was paid by the vehicle to Interbanca using funds raised from the issue of senior notes for an amount of 188 million Euro. Their redemption is connected to the collections realised on the receivables portfolio. In addition, the vehicle issued 227 million Euro in junior notes that were acquired by Interbanca.

Interbanca acts as servicer, performing the following tasks:

- following collection operations and monitoring cash flows on a daily basis;
- reconciling the closing balance every month;
- preparing the monthly report with the information about the financial position and performance of the securitised portfolio for the vehicle;
- verifying, completing and submitting the service report with the information on the securitised portfolio requested by the vehicle and the banks on a monthly and quarterly basis.

In compliance with IASs/IFRSs, currently the securitisation process does not involve the substantial transfer of all risks and rewards, as it does not meet the derecognition requirements set by IAS 39. In addition, the vehicles were consolidated in order to provide a comprehensive view of the transaction.

The maximum theoretical loss for Interbanca is represented by the losses that could potentially arise within the portfolio of assigned receivables, and the impact would be the same as if the securitisation programme did not exist; therefore, the securitisation has been accounted for as follows:

- the securitised mortgages were recognised under "loans to customers", subline item "mort-gages";
- the funds raised from the issue of senior notes subscribed for by third parties were recognised under "outstanding securities";
- the interest on the mortgages was recognised under "interest on loans to customers";
- the interest on the notes was recognised under "interest due and similar expenses", subline item "outstanding securities";
- the arrangement fees were fully recognised in profit or loss in the current year.

At 31 December 2016, the interest on the senior notes recognised in profit or loss amounted to 0,1 million Euro (at a 2,43% rate). The up-front costs incurred for these transactions amounted to 8,4 million Euro, including 5,8 million Euro in commission expense and 2,6 million Euro in operating costs. These costs were incurred in part by the vehicle and in part by the Parent Company Banca IFIS.

Quantitative information

C.1 Banking group- Exposures from the main “own” securitisations broken down by type of securitised asset and type of exposure

Type of securitised asset/ Exposure	On-balance-sheet exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Impairment losses/reversal	Carrying amount	Impairment losses/reversal	Carrying amount	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal	Net exposure	Impairment losses/reversal
A. Fully derecognised	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- asset type	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Partly derecognised	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- asset type	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised	-	-	-	-	**396.361**	-	-	-	-	-	-	-	-	-	-	-	-	-
- non-performing loans to customers	-	-	-	-	334	-	-	-	-	-	-	-	-	-	-	-	-	-
- performing loans to customers	-	-	-	-	396.027	-	-	-	-	-	-	-	-	-	-	-	-	-

C.3 Banking group - Interests in special purpose vehicles for the securitisation

Securitisation name/ special purpose vehicle	Registered office	Consolidation	Assets			Liabilities		
			Loans and receivables	Debt securities	Others	Senior	Mezzanine	Junior
IFIS ABCP Programme S.r.l.	Conegliano (Province of Treviso)	100%	1.380.929	-	75.167	946.261	-	-
Indigo Loan S.r.l.	Conegliano (Province of Treviso)	100%	395.177	-	58.517	188.100	-	227.200
Indigo Lease S.r.l.	Conegliano (Province of Treviso)	100%	451.400	-	46.844	366.300	-	138.000

C.6 Interests in special purpose vehicles

Securitisation name/ special purpose vehicle	Registered office	% stake
IFIS ABCP Programme S.r.l.	Conegliano (Province of Treviso)	0%
Indigo Loan S.r.l.	Conegliano (Province of Treviso)	0%
Indigo Lease S.r.l.	Conegliano (Province of Treviso)	0%

D. Disclosure on structured entities (other than securitisation vehicles)
D.2 Unconsolidated structured entities

Qualitative information

During 2014, Banca IFIS bought a property in Florence to be renovated for 9,6 million Euro. It plans to move the NPL area's offices there. At the same time, the Bank sold a finance lease agreement concerning the property currently housing the NPL Area to a newco, a special purpose vehicle set up exclusively to manage said property and owned by a real estate company not related to the Banca IFIS Group.

Following the sale of the lease agreement, Banca IFIS is jointly liable for the settlement of the relevant lease payments. To hedge the risk of insolvency on the part of the newco, Banca IFIS obtained that it set up a 1 million Euro security deposit with the Bank as well as a lien on 99% of voting shares in the newco, to be exercised in the event the newco defaults on its obligations.

Pending completion of the renovation works, the Bank had entered into a lease agreement with the newco to continue using the offices for a rent essentially aligned with lease payments.

Following the completion of the renovation works, the lease agreement was terminated in October 2016.

In 2016, the newco regularly settled the lease payments due using the money raised from the leased property.

Since the sale of the lease agreement does not meet the requirements of IAS 39 for derecognising the financial liability, Banca IFIS continues to recognise the building under property, plant and equipment, and the relevant financial liability under payables due to customers.

Quantitative information

Items/ Type of structured entity	Accounting portfolios under assets	Total assets (A)	Accounting portfolios under liabilities	Total liabilities (B)	Net book value (C=A-B)	Maximum exposure to the risk of loss (D)	Difference between exposure to the risk of loss and book value (E=D-C)
1. Special purpose vehicle	n.a.	-	Due to customers	553	(553)	-	(553)

The maximum risk of loss is zero, as can be seen from the qualitative information provided.

E. Sales

A. Financial assets sold and not fully derecognised

Qualitative information

Financial assets sold but not derecognised refer to securitised receivables and Italian government bonds used for repurchase agreements. Those financial assets are recognised under available for sale financial assets, whereas financing for repurchase agreements is recognised under payables due to customers.

Quantitative information

E.1 Financial assets sold and not derecognised: book value and full value

Types/ Portfolio	Financial assets held for trading			Financial assets at fair value			Available for sale financial assets			Held to maturity financial assets			Due from banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31/12/2016	31/12/2015
A. On-balance-sheet assets	**-**	**-**	**-**	**-**	**-**	**-**	**323.033**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**927.626**	**-**	**-**	**1.250.659**	**-**
1. Debt securities	-	-	-	-	-	-	323.033	-	-	-	-	-	-	-	-	-	-	-	323.033	-
2. Equity securities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. UCITS	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	927.626	-	-	927.626	-
B. Derivatives	**-**	**-**	**-**	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	**-**	**-**
Total 31.12.2016	**-**	**-**	**-**	**-**	**-**	**-**	**323.033**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**927.626**	**-**	**-**	**1.250.659**	X
of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*1.373*	-	-	*1.373*	X
Total 31.12.2015	**-**	**-**	**-**	**-**	**-**	**-**	**2.667.606**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	X	**2.667.606**
of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X	-

Key:
A= Financial assets sold and fully recognised (book value)
B= Financial assets sold and partly recognised (book value)
C= Financial assets sold and partly recognised (full value)

1.2 Banking group – market risks

Generally, as the Banca IFIS Group does not usually trade in financial instruments, its financial risk profile refers mainly to the banking book. The activity of purchasing bonds, given that these are classified under Available for Sale and Loans and Receivables, falls within the scope of the banking book and does not, therefore, constitute new market risks.

At the end of 2016, the Group recognised currency swaps with a mark-to-market value positive to the tune of 397 thousand Euro and negative to the tune of 2.031 thousand Euro. The classification of these derivatives under financial assets held for trading does not reflect the aim of the transaction, which is to mitigate the impact of potential fluctuations in the reference exchange rates.

Concerning Interbanca alone, during 2016, in line with internal policies forbidding any kind of trading for speculative purposes, the trading book consisted entirely of residual transactions from Corporate Desk operations (discontinued in 2009), in which clients were offered derivative contracts hedging the financial risks they assumed. In order to remove market risk, all outstanding transactions are hedged with “back to back” trades, in which the Bank assumes a position opposite to the one sold to corporate clients with independent market counterparties.

1.2.1 Interest rate risk and price risk – supervisory trading book

Qualitative information

The Banca IFIS Group does not usually trade in financial instruments.

1.2.2 Interest rate risk and price risk – banking portfolio

Qualitative information

A. General aspects, management procedures and measurement methods concerning the interest rate risk and the price risk

Quantitative information

As a general principle, the Group does not assume significant interest rate risks. Following the acquisition of the former GE Capital Interbanca Group, the main funding source is still the online savings account rendimax, wwhich is complemented by collateralised or non-collateralised interbank funding. Customer deposits on the rendimax and contomax products are at a fixed rate for the fixed-term part, while on demand and call deposits are at a non-indexed floating rate the Bank can unilaterally revise without prejudice to legal and contractual provisions. The Bank launched three securitisation programmes in the year just ended: one with underlying the factoring portfolio, one with underlying the leasing portfolio, and one with underlying the corporate portfolio. The first is a three-year revolving programme, the other two are amortizing programmes.

At the end of 2016, Banca IFIS acquired the former GE Capital Interbanca Group and expanded its core business to corporate lending, structured finance, and finance and operating leases. Loans to customers are still largely at floating rate.

As for the operations concerning distressed retail loans (carried out by the NPL Area), for which the business model focuses on acquiring receivables at prices lower than their book value, there is a potential interest rate risk associated with the uncertainty about when the receivables will be collected. The variability in the loan's term, which to all intents and purposes can be considered at a fixed rate, is particularly important with reference to tax receivables, the overall par value of which is highly likely to be collected, although in the medium/long term. In this context, and in order to effectively mitigate interest rate risk, it is particularly important to correctly assess the transaction during the initial acquisition stage. At 31 December 2016, approximately 14% of the bond portfolio consisted of inflation-indexed bonds. The remainder consisted of fixed-rate short-term bonds. The average duration of the overall portfolio is approximately eleven months.

The interest rate risk associated with funding operations carried out by the Parent Company's Treasury Department is assumed according to the limits and policies set by the Board of Directors, with precise delegations of power limiting the autonomy of those authorised to operate within the Bank's Treasury Department.

The business functions responsible for ensuring interest rate risk is managed correctly are: the Treasury Department, which directly manages funding operations and the bond portfolio; the Risk Management function, responsible for selecting the most appropriate risk indicators and monitoring assets and liabilities with reference to pre-set limits; and, lastly, the Top Management, which every year shall make proposals to the Board regarding policies on lending, funding and the management of interest rate risk, as well as suggest appropriate actions during the year in order to ensure that operations are conducted consistently with the risk policies approved by the Bank.

As part of current operations and based on funding indications from the Treasury Department, as well as interest rate forecasts and assessments of lending trends, the Top Management provides the Treasury Department—which monitors interest rate risk trends with reference to the natural mismatching between assets and liabilities—with guidelines on the use of available credit lines.

In order to monitor interest rate risk, the Top Management receives a daily summary on the overall cash position. Furthermore, the Risk Management function periodically reports to the Bank's Board of Directors on the interest rate risk position by means of a quarterly Dashboard prepared for the Bank's management. The Integrated Treasury System (SIT) provides further tools for assessing and monitoring the main interest rate-sensitive assets and liabilities.

The interest rate risk falls under the category of second-pillar risks. In the final document sent to the Supervisory Body, as per the relevant regulations (Circular 285 of 17 December 2013 – Title III, Chapter 1, Annex C), the Interest Rate Risk has been specifically measured in terms of capital absorption. In the face of the warning threshold of 20% of Regulatory Capital, the resulting risk indicator for the Banca IFIS Group (pre-acquisition of the former GE Capital Interbanca Group) was close to zero as at 30 September 2016.

In order to ensure Group-level monitoring and reporting, Banca IFIS has implemented an integration process to include Interbanca, IFIS Factoring Srl, IFIS Leasing Spa, and IFIS Rental Services Srl in the scope of analysis.

Considering the extent of the risk assumed, the Banca IFIS Group does not usually hedge interest rate risk.

As for the price risk, the Group does not generally assume risks associated with price fluctuations on financial instruments, as its business focuses on financing SMEs' working capital.

Classifying the bonds held under Available for sale financial assets gives rise to the risk that the Group's capital reserves could fluctuate as a consequence of the change in the bonds' fair value. Nonetheless, this risk is relatively low, since the securities portfolio is now limited in size and given the high credit standing of the issuers and the short average duration of the portfolio.

The Risk Management function is responsible for monitoring the price risk that the Group assumes while conducting its business. Thanks to the Integrated Treasury System (SIT) and the contribution of the Risk Management Function, the Group can assess and monitor the operations of the treasury, providing appropriate tools for assessing price risks. Specifically, the SIT also allows to

- manage the Treasury's traditional operations (securities, exchange rates, money market and derivatives);
- measure and control the exposure to specific types of market risk;
- establish and constantly monitor limits set for the various operational functions.

B. Fair value hedging

There are no fair value hedges.

C. Cash flow hedging

There are no cash flow hedges.

1. Banking book: distribution by residual duration (re-pricing date) of financial assets and liabilities - Currency: Euro

Type/Residual life	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 years to 10 years	over 10 years	Indefinite duration
1. On-balance-sheet assets	**1.549.960**	**708.118**	**360.449**	**565.387**	**526.723**	**195.187**	**11.938**	**-**
1.1 Debt securities	-	-	52.741	270.292	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	52.741	270.292	-	-	-	-
1.2 Loans to banks	95.327	301.644	-	-	-	-	-	-
1.3 Loans to customers	1.454.633	406.474	307.708	295.095	526.723	195.187	11.938	-
- current accounts	49.868	6	624	238	14.331	3.928	128	-
- other loans	1.404.765	406.468	307.084	294.857	512.392	191.259	11.810	-
- with early redemption option	100.839	63	204	863	13	-	-	-
- other	1.303.926	406.405	306.880	293.994	512.379	191.259	11.810	-
2. On-balance-sheet liabilities	**1.011.538**	**1.507.281**	**220.938**	**399.284**	**1.538.602**	**1.053**	**1.909**	**-**
2.1 Due to customers	891.081	1.104.976	184.938	390.284	1.538.602	1.053	1.909	-
- current accounts	891.081	1.609.680	182.639	388.299	1.536.475	-	-	-
- other payables	-	504.704	2.299	1.985	2.127	1.053	1.909	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	504.704	2.299	1.985	2.127	1.053	1.909	-
2.2 Due to banks	120.457	402.305	36.000	9.000	-	-	-	-
- current accounts	120.457	-	-	-	-	-	-	-
- other payables	-	402.305	36.000	9.000	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance-sheet transactions	**-**		**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-		-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

1.2.3 Currency risk

Qualitative information

A. General aspects, management procedures and measurement methods concerning the currency risk

The assumption of currency risk, intended as an operating element that could potentially improve treasury performance, represents a speculative instrument: in principle, therefore, it is not part of the Group's policies. Banca IFIS's foreign currency operations largely involve collections and payments associated with factoring operations. In this sense, the advances in foreign currency granted to customers are generally hedged with deposits and/or loans from other banks in the same currency, thus eliminating for the most part the risk of losses associated with exchange rate fluctuations. In some cases, synthetic instruments are used as hedging instruments.

Concerning the foreign currency transactions carried out by the subsidiary Interbanca, they consists in medium/long-term loans (mostly in USD) for which the currency risk is neutralised right from their inception by securing funding denominated in the same currency. This funding is currently provided by the Parent Company Banca IFIS, which manages the consolidated net mismatching of the exposure related to said risk.

A residual currency risk arises as a natural consequence of the mismatch between the borrowers' drawdowns and the Treasury Department's funding operations in foreign currency. Such mismatches are mainly a result of the difficulty in correctly anticipating financial trends connected with factoring operations, with particular reference to cash flows from account debtors vis-à-vis the maturities of loans granted to customers, as well as the effect of interest on them.

However, the Treasury Department strives to minimise such mismatches every day, constantly realigning the size and timing of foreign currency positions.

Currency risk related to the Bank's business is assumed and managed according to the risk policies and limits set by the Parent Company's Board of Directors, with precise delegations of power limiting the autonomy of those authorised to operate, as well as especially strict limits on the daily net currency position.

The business functions responsible for ensuring the currency risk is managed correctly are: the Treasury Department, which directly manages the bank's funding operations and currency position; the Risk Management function, responsible for selecting the most appropriate risk indicators and monitoring them with reference to pre-set limits; and the Top Management, which every year shall make proposals to the Bank's Board of Directors regarding policies on funding and the management of currency risk, as well as suggest appropriate actions during the year in order to ensure that operations are conducted consistently with the risk policies approved by the Group.

Furthermore, the Risk Management function periodically reports to the Bank's Board of Directors on the currency risk position by means of a quarterly Dashboard prepared for the Bank's management.

The Group's expanding operations in Poland, through the subsidiary IFIS Finance, are no exception to the above approach: assets denominated in Zloty are financed through funding in the same currency.

With the acquisition of the Polish subsidiary, Banca IFIS has assumed the currency risk represented by the initial investment in IFIS Finance's share capital for an amount of 21,2 million Zloty and the subsequent share capital increase for an amount of 66 million Zloty.

Furthermore, Banca IFIS owns a 5,57% interest in India Factoring and Finance Solutions Private Limited, worth 20 million Indian rupees and with a market value of 3.044 thousand Euro at the historical exchange rate. As already mentioned, in 2015 the Bank tested said interest for impairment, recognising a 2,4 million

Euro charge in profit or loss. In 2016, the fair value was revalued by 193,4 thousand Euro through equity, bringing the value of the equity interest to 864,6 thousand Euro.

Considering the size of this investment, the Bank did not deem it necessary to hedge the ensuing currency risk.

Quantitative information

1. Distribution of assets, liabilities and derivatives by currency

Items	Currencies					
	US DOLLAR	POUND STERLING	JAPANESE YEN	CANADIAN DOLLAR	SWISS FRANC	OTHER CURRENCIES
A. Financial assets	**212.521**	**1.313**	**4**	**39**	**4**	**62.521**
A.1 Debt securities						
A.2 Equity securities						
A.3 Loans to banks	169.802	87	4	38	0	9.546
A.4 Loans to customers	42.719	1.226	0	1	4	52.975
A.5 Other financial assets						
B. Other assets						**95**
C. Financial liabilities	**65.333**	**514**	**20**	**0**	**164**	**6.944**
C.1 Due to banks	63.693	504	20	0	164	6.105
C.2 Due to customers	1.638	10	0	0	0	839
C.3 Debt securities	0					
C.4 Other financial liabilities	2	0	0	0	0	0
D. Other liabilities						**565**
E. Financial derivatives	**132.114**	**0**	**0**	**0**	**0**	**27.178**
- Options	0	0	0	0	0	0
+ long positions						
+ short positions						
- Other	132.224	0	0	0	0	27.201
+ long positions	10					399
+ short positions	132.234	0	0	0	0	27.600
Total assets	**212.529**	**1.314**	**4**	**38**	**4**	**63.014**
Total liabilities	**197.564**	**514**	**20**	**0**	**164**	**35.108**
Unbalance (+/-)	**14.965**	**800**	**16**	**38**	**159**	**27.906**

1.2.4 Derivative instruments

A. Financial derivatives

The Banca IFIS Group does not trade in financial derivatives on behalf of third parties and limits proprietary trading to instruments hedging against market risk.

Banca IFIS often uses financial derivatives to hedge currency exposures. At 31 December 2016, the Bank recognised foreign exchange derivatives with a positive fair value of 397 thousand euro and a negative fair value of 2031 thousand euro. As for the transactions entered into, it should be noted that the Group never undertakes speculative transactions.

Concerning Interbanca alone, during 2016, in line with internal policies forbidding any kind of trading for speculative purposes, the trading book—totalling 47,0 million Euro—consisted entirely of residual transactions from Corporate Desk operations (discontinued in 2009), in which clients were offered derivative contracts hedging the financial risks they assumed. In order to remove market risk, all outstanding transactions are hedged with “back to back” trades, in which the Bank assumes a position opposite to the one sold to corporate clients with independent market counterparties, resulting in 46,4 million Euro in liabilities held for trading.

A.1 Supervisory trading book: year-end notional amounts

Underlying assets/type of derivatives	31.12.2016		31.12.2015	
	Over the counter	Central counterparts	Over the counter	Central counterparts
1. Debt securities and interest rates	**419.297**	-	**-**	-
a) Options	21.168	-	-	-
b) Swaps	398.129	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share in-	**30.091**	-	**-**	-
a) Options	30.091	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**157.946**	-	**36.500**	-
a) Options	-	-	-	-
b) Swaps	157.946	-	36.500	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Goods	**-**	-	-	-
5. Other underlying assets	**-**	-	-	-
Total	**607.334**	**-**	**36.500**	**-**

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

Underlying assets/type of derivatives	Positive fair value			
	31.12.2016		31.12.2015	
	Over the counter	Central counter-parts	Over the counter	Central counter-parts
A. Supervisory trading book	**40.282**	-	-259	-
a) Options	-	-	-	-
b) Interest rate swaps	39.885	-	-	-
c) Cross currency swaps	397	-	259	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Hedging banking book	**-**	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	**-**	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**40.282**	**-**	**259**	**-**

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

Underlying assets/type of derivatives	Negative fair value			
	31.12.2016		31.12.2015	
	Over the counter	Central counter-parts	Over the counter	Central counter-parts
A. Supervisory trading book	**48.478**	-	**21**	-
a) Options	-	-	-	-
b) Interest rate swaps	46.447	-	-	-
c) Cross currency swaps	2.031	-	21	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Hedging banking book	**-**	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	**-**	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**48.478**	**-**	**21**	**-**

A.5 Financial derivatives: supervisory trading book: notional values, gross positive and negative fair value by counterparty - contracts not included in netting agreements

Contracts not included in netting agreements	Governments and Central banks	Other public entities	Banks	Financial institutions	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates							
- notional amount	-	-	233.792	22.357	-	163.148	-
- positive fair value	-	-	3.936	11.110	-	24.839	-
- negative fair value	-	-	46.447	-	-	-	-
- future exposure	-	-	1.682	112	-	1.357	-
2) Equity instruments and share indexes							
- notional amount	-	-	-	-	-	30.091	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	75	-
3) Currencies and gold							
- notional amount	-	-	157.946	-	-	-	-
- positive fair value	-	-	397	-	-	-	-
- negative fair value	-	-	2.031	-	-	-	-
- future exposure	-	-	275	-	-	-	-
4) Other amounts							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.9 Residual life of OTC financial derivatives: notional amounts

Underlying assets/Residual life	Up to 1 year	Over 1 to 5 years	Over 5 years	Total
A. Supervisory trading book	**207.898**	**269.107**	**130.329**	**607.334**
A.1 Financial derivatives on debt securities and interest rates	49.952	239.016	130.329	419.297
A.2 Financial derivatives on equity instruments and share indexes	-	30.091	-	30.091
A.3 Financial derivatives on exchange rates and gold	157.946	-	-	157.946
A.4 Financial derivatives on other values	-	-	-	-
B. Banking book	**-**	**-**	**-**	**-**
B.1 Financial derivatives on debt securities and interest rates	-	-	-	-
B.2 Financial derivatives on equity instruments and share indexes	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other values	-	-	-	-
Total 31.12.2016	**207.898**	**269.107**	**130.329**	**607.334**
Total 31.12.2015	**36.500**	**-**	**-**	**36.500**

1.3 Banking group – Liquidity risk

Qualitative information

A. General aspects, management procedures and measurement methods of the liquidity risk

The liquidity risk refers to the possibility that the Group fails to service its debt obligations due to the inability to raise funds or sell enough assets on the market to address the financial deficit. The liquidity risk also refers to the inability to secure new adequate financial resources, in terms of amount and cost, to meet its operating needs and opportunities, hence forcing the Group to either slow down or stop its operations, or incur excessive funding costs in order to service its obligations, significantly affecting its profitability.

Financial resources are represented by equity, on-line funding from retail customers, and funding operations carried out on the domestic and international interbank market as well as with the Eurosystem. Following the acquisition of the former GE Capital Interbanca Group, the Group's core business now includes Corporate lending, structured finance, and finance and operating leases—which are all medium-term operations. Factoring operations concern short- or very short-term trade receivables (normally not exceeding 6 months, excluding receivables due from the Public Administration, with average collection periods usually up to 12 months).

With reference to the Group’s operations concerning the NPL Area and the purchases of tax receivables arising from insolvency proceedings, the characteristics of the business model imply a high level of variability concerning both the amount collected and the date of actual collection. Therefore, the timely and careful management of cash flows is particularly important. To ensure expected cash flows are correctly assessed, also with a view to correctly pricing the transactions undertaken, the Group carefully monitors the trend in collections compared to expected flows.

The Banca IFIS Group has always secured financial resources more than adequate for its needs thanks to its wide and diverse interbank relationships, the market's positive response to its on-line funding source, the presence of a portfolio of bonds eligible for Repo transactions, and the type and quality of its assets.

During the period, the Bank pursued particularly prudent financial policies aimed at favouring funding stability. This policy, which affects the economic efficiency of treasury management, in terms of the rate spread between interbank funding and lending, to guarantee certain and stable liquidity, is adequately supported by the profitability of the Group's operations.

At the moment, the available financial resources are adequate for current and future business volumes. Nonetheless, the Group is constantly striving to improve the state of its financial resources, in terms of both size and cost.

The Parent Company’s business functions responsible for ensuring that liquidity policies are properly implemented are: the Treasury Department, which directly manages liquidity; the Risk Management function, responsible for selecting the most appropriate risk indicators and monitoring them with reference to pre-set limits; and the Top Management, which every year, aided by the Financial Office, shall make proposals to the Bank's Board of Directors regarding policies on funding and the management of liquidity risk, as well as suggest appropriate actions during the year in order to ensure that operations are conducted consistently with the risk policies approved by the Group.

As for its own direct operations, the Bank has adopted a model for analysing and monitoring present and future liquidity positions as an additional element systematically supporting the Top Management’s and the Board of Directors’ decisions concerning liquidity. The results of periodic analyses carried out under both normal and stress market conditions are reported directly to the Supervisory Body.

In order to ensure Group-level monitoring and reporting, Banca IFIS has implemented an integration process to include Interbanca, IFIS Factoring, IFIS Leasing, and IFIS Rental Services in the scope of analysis—even though IFIS Rental Services is not included in the supervisory scope.

In compliance with supervisory provisions, the Bank also has a Contingency Funding Plan aimed at protecting the banking Group from losses or threats arising from a potential liquidity crisis and guaranteeing business continuity even in the midst of a serious emergency arising from its own internal organisation and/or the market situation.

Furthermore, the Risk Management function periodically reports to the Bank's Board of Directors on the liquidity risk position by means of a Dashboard prepared for the Bank's management.

With reference to the Polish subsidiary, treasury operations are co-ordinated by Banca IFIS's Treasury Department, in accordance with the Group's policies. If needed, the Bank may intervene directly in the subsidiary's favour.

As part of the continuous process of updating internal procedures, and taking into account the changes in the relevant prudential regulations, the Bank has implemented a Group liquidity risk governance and management system.

Quantitative information

1. Distribution by residual contractual duration of financial assets and liabilities - Currency: Euro

Items/Duration	on demand	over 1 day to 7 days	over 7 days to 15 days	over 15 days to 1 month	over 1 month to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	Over 5 years	indefinite life
On-balance-sheet assets	**869.555**	**114.012**	**103.900**	**397.521**	**122.745**	**512.131**	**792.604**	**1.383.759**	**49.568**	**1.069.8**
A.1 Government bonds	-	-	-	-	-	427	270.719	80.000	-	-
A.2 Other debt securities	-	-	-	-	-	-	6	-	-	0
A.3 UCITS units	3.939	-	-	-	-	-	-	-	-	-
A.4 Loans	865.616	114.012	103.900	397.521	122.745	511.704	521.879	1.303.759	49.568	1.069.831
- banks	168.886	18.026	2.505	952	705.809	22.762	547	11.264	1.277	1.063.831
- customers	696.730	95.986	101.395	396.569	828.554	488.942	521.332	1.292.495	50.845	6.000
On-balance-sheet liabilities	**992.505**	**49.467**	**62.088**	**365.535**	**1.862.906**	**259.947**	**420.445**	**1.758.178**	**5.591**	**-**
B.1 Deposits and current accounts	990.076	48.930	62.088	365.523	1.541.669	259.288	420.307	1.539.245	2.112	-
- banks	49.733	97	2.856	261.089	88.551	36.195	9.082	-	-	-
- customers	940.343	48.833	59.232	104.434	1.453.118	223.093	411.225	1.539.245	2.112	-
B.2 Debt securities	395	4	-	-	13	67	65	247.941	-	-
B.3 Other liabilities	2.034	533	-	12	321.224	592	73	29.008	3.479	-
Off-balance-sheet transactions	**117.044**	**-**	**-**	**121.691**	**193.317**	**69.141**	**15.602**	**31.637**	**17.572**	**-**
C.1 Financial derivatives with exchange of underlying assets	-	-	-	65.952	189.940	60.000	-	0	-	-
- long positions	-	-	-	32.976	94.970	30.000	-	0	-	-
- short positions	-	-	-	32.976	94.970	30.000	-	-	-	-
C.2 Financial derivatives without exchange of underlying assets	86.332	-	-	-	-	-	-	-	-	-
- long positions	39.885	-	-	-	-	-	-	-	-	-
- short positions	46.447	-	-	-	-	-	-	-	-	-
C. 3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C. 4 Irrevocable loan commitments	30.712	-	-	55.739	3.377	9.141	15.602	31.637	17.572	-
- long positions	7.501	-	-	-	3.377	9.141	15.602	31.637	17.572	-
- short positions	23.211	-	-	55.739	-	-	-	-	-	-
C.5 financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.6 financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.1 Credit derivatives with exchange of underlying assets	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of underlying assets	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Self-securitisation transactions

On 25 January 2011, Toscana Finanza's Board of Directors resolved to implement a securitisation programme for non-performing loans pursuant to Italian Law 130 of 30 April 1999 in order to optimise the operational and economic management of part of its financial receivables portfolio.

The operation concerned non-performing banking loans identifiable in block and largely backed by mortgages for an overall par value of around 33,7 million Euro.

The special purpose vehicle, Giglio SPV Srl, issued floating-rate asset-backed securities that were wholly underwritten by the merged company Toscana Finanza S.p.A., which was given a specific sub-servicing mandate for the collection and management of the receivables.

It should be noted that, pursuant to the terms and conditions of the operation, there is no substantial transfer of all the risks and rewards relating to the transferred assets (receivables).

Securitisation transactions

As for the securitisations conducted in late 2016 and their purpose, see the comments in the section on credit risks.

Exposure to high risk instruments – disclosure

Considering the goals it pursues and the technical aspects of the securitisation described above, the Banca IFIS Group faces no exposure or risks arising from the trading or holding of structured credit products, whether carried out directly or through unconsolidated special purpose vehicles or entities. In particular, it is important to stress that the securitisation has not removed any risk from the Group's total assets, since the derecognition requirements set by IAS 39 were not met. Meanwhile, the underwriting of the securities arising from the securitisation has not added any risk nor changed the presentation of the assets involved in the securitisation in the financial statements compared to the past. With reference to the Recommendation set out in the Report of the Financial Stability Forum of 7 April 2008, Appendix B, we can state that there are no exposures to instruments deemed highly risky by the market or implying a risk greater than previously expected.

1.4 Banking group — Operational risks

Qualitative information

A. General aspects, management procedures and measurement methods concerning the operational risk

Operational risk is the risk of losses arising from inadequate or dysfunctional processes, human resources, internal systems or external events. This definition does not include strategic risk and reputational risk, but it does include legal risk (i.e. the risk of losses deriving from failure to comply with laws or regulations, contractual or extra-contractual liability, or other disputes), IT risk, risk of non-compliance, risk of money laundering and terrorist financing, and the risk of financial misrepresentation.

The main sources of operational risk are operational errors, inefficient or inadequate operational processes and controls, internal and external frauds, the outsourcing of business functions, the quality of physical and logical security, inadequate or unavailable hardware or software systems, the growing reliance on automation, staff below strength relative to the size of the business, and inadequate human resources management and training policies.

The Banca IFIS Group has adopted for a while now—consistently with the relevant regulatory provisions and industry best practices—an operational risk management framework. This consists in a set of rules, procedures, resources (human, technological and organisational), and controls aiming to identify, assess, monitor, prevent or mitigate all existing or potential operational risks in the various organisational units, as well as to communicate them to the competent levels. The key processes for properly managing operational risks are the Loss Data Collection and Risk Self Assessment.

During 2016, the Risk Management further consolidated the Loss Data Collection process through constant efforts to disseminate a culture of pro-actively managing operational risks among the various structures, and therefore to raise awareness about the Loss Data Collection process. In addition, in 2016 the Bank defined and launched specific mitigating measures to bolster operational risk controls. These measures were based on the evidence gathered from the Loss Data Collection and Risk Self Assessment processes, which allowed to identify the main operational problems and therefore establish the most appropriate mitigating measures.

As for the Companies of the Banca IFIS Group:

- concerning the Polish subsidiary IFIS Finance, currently the management of operational risks is guaranteed by the strong involvement of the Parent Company, which makes decisions in terms of strategies and risk management;
- concerning the subsidiaries Capital Interbanca, IFIS Factoring, IFIS Leasing, and IFIS Rental Services (deriving from the acquisition of the former GE Capital Interbanca Group in late 2016), the Bank is gradually integrating the operational risk management framework in order to establish a single approach at Group level.

To calculate capital requirements against operational risks, the Group adopted the Basic Indicator Approach.

Section 3 – Risks of other companies

There were no significant risks for the remaining consolidated companies that are not part of the Banking Group other than those disclosed in the section about the Banking Group.

Part F - Consolidated equity

Section 1 – Consolidated Equity

A. Qualitative information

Managing equity concerns a set of policies and decisions necessary to establish capital levels that are consistent with the assets and risks taken by the bank. The Banca IFIS Group is subject to the capital adequacy requirements established by the so-called Basel Committee (CRR/CRD IV).

The Board of Directors constantly monitors that the Bank meets the minimum supervisory requirements, and therefore the capital adequacy ratios, as well as complies with the capital limits set out in the Risk Appetite Framework (RAF).

Furthermore, also in accordance with the European Central Bank's recommendation of 28 January 2015, the Bank ensures compliance with capital adequacy ratios through a pay-out policy linked to the achievement of the above minimum capital requirements, as well as the careful assessment of the potential impact of extraordinary financial operations (share capital increases, convertible loans, etc.).

The Group's capital adequacy is further assessed and monitored every time an extraordinary operation is planned. In these cases, based on available information regarding said operations, the Banca IFIS Group estimates the impact on capital adequacy ratios as well as the RAF, and considers any measures necessary to meet the requirements.

Transactions on treasury shares

At 31 December 2015, the bank held 739.446 treasury shares recognised at a market value of 5,8 million Euro and a par value of 739.446 Euro.

During 2016 Banca IFIS made the following transactions on treasury shares:

- as variable pay for the 2015 financial results, it awarded the Top Management 9.295 treasury shares at an average price of 26,92 Euro, for a total of 250 thousand Euro and a par value of 9.295 Euro, making profits of 191 thousand Euro that, in compliance with IASs/IFRSs, were recognised under the capital reserve;
- it sold, at an average price of 24,09 Euro, 350.000 treasury shares with a market value of 8,4 million Euro and a par value of 350.000 Euro, making profits of 5,9 million Euro that, in compliance with IASs/IFRSs, were recognised under the capital reserve.

The remaining balance at the end of the year was 380.151 treasury shares with a market value of 3,2 million Euro and a par value of 380.151 Euro.

B. Quantitative information

B.1 Consolidated equity: breakdown by type of entity

Equity items	Banking group	Insurance companies	Other companies	Consolidation eliminations & adjustments	31.12.2016
Share capital	53.811	-	-	-	53.811
Share premiums	101.776	-	-	-	101.776
Reserves	383.835	-	-	-	383.835
Prepayments on dividends	-	-	-	-	-
Equity instruments	-	-	-	-	-
(Treasury shares)	(3.187)	-	-	-	(3.187)
Valuation reserves:	(5.445)	-	-	-	(5.445)
- Available for sale financial assets	1.534	-	-	-	1.534
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Foreign investment hedges	-	-	-	-	-
- Cash flow hedges	-	-	-	-	-
- Exchange differences	(6.856)	-	-	-	(6.856)
- Non-current assets under disposal	-	-	-	-	-
- Actuarial gains (losses) on defined benefit plans	(123)	-	-	-	(123)
- Share of valuations reserves of equity-accounted investments	-	-	-	-	-
- Specific revaluation laws	-	-	-	-	-
Profit (loss) for the year (+/-) of the Group and minority interests	687.993	-	-	-	687.993
Equity	**1.218.783**	**-**	**-**	**-**	**1.218.783**

B.2 Valuation reserves of available for sale financial assets: breakdown

Assets/Amounts	Banking group		Insurance companies		Other companies		Consolidation eliminations & adjustments		31.12.2016	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	938		-	-	-	-	-	-	938	-
2. Equity securities	597	(1)	-	-	-	-	-	-	597	(1)
3. UCITS units	-	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-
Total 31.12.2016	**1.535**	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**	**1.535**	**(1)**
Total 31.12.2015	**11.678**	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**	**11.678**	**(1)**

B.3 Valuation reserves of available for sale financial assets: annual changes

	Debt securities	Equity securities	UCITS units	Loans
1. Opening balance	**11.678**	**(1)**	**-**	-
2. Increases	**2.081**	**597**	**-**	-
2.1 Fair value gains	182	597	-	-
2.2 Reclassification to profit or loss of negative reserves:	-	-	-	-
- from impairment losses	-	-	-	-
- from realisation	-	-	-	-
2.3 Other changes	1.899	-	-	-
3. Reductions	**12.821**	**-**	**-**	**-**
3.1 Fair value losses	7.539	-	-	-
3.2 Impairment losses	-	-	-	-
3.3 Reclassification to profit or loss of positive reserves:	5.282	-	-	-
- from realisation	*5.282*	-	-	-
3.4 Other changes	-	-	-	-
4. Closing balance	**938**	**596**	**-**	-

Section 2 – Own funds and prudential ratios

2.1 Scope of application of the law

Consolidated own funds, risk-weighted assets and solvency ratios at 31 December 2016 were determined based on the regulatory principles set out in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) dated 26 June 2013, which were transposed in the Bank of Italy's Circulars no. 285 and 286 of 17 December 2013.

Article 19 of the CRR requires to include the unconsolidated holding of the banking group in prudential consolidation.

The consolidated own funds and capital ratios refer to the Banca IFIS Group including Interbanca (formerly GE Capital Interbanca).

The measures concerning own funds provide for the gradual phase-in of a new regulatory framework, with a transitional period lasting until 2017 during which some elements that will be accounted for or deducted in full once the provisions become effective will have only a limited impact.

2.2 Banking own funds

A. Qualitative information

1. Common equity Tier 1 Capital (CET1)

A) Common Equity Tier 1 Capital (CET1)

This item includes:

- 11,1 million Euro in paid-up capital instruments;
- 10,9 million Euro in share premium;
- 0,3 million Euro in own CET1 instruments;

- 617,7 million Euro in other reserves, including retained earnings. Specifically, this item includes the 330.2 million Euro profit recognised under Own Funds pursuant to article 26 of the CRR, less 43,8 million Euro in dividends expected to be paid to the owners of the Parent;
- other items of comprehensive income, negative to the tune of 2,7 million Euro and consisting of:
  - 0,06 million Euro in the negative reserve for actuarial losses deriving from defined-benefit plans in accordance with the new IAS19;
  - 0,8 million Euro in positive reserves for available for sale financial assets;
  - 3,4 million Euro in negative reserves from exchange differences;
- 450,1 million Euro in minority interests given recognition in CET1.

D) Items to be deducted from CET1

This item includes the following main aggregates:

- 50,6 million Euro in goodwill and other intangible assets.
- 59,7 million Euro in deferred tax assets from tax losses.

E) Transitional regime - Impact on CET1 (+/-), including minority interests subject to transitional provisions

This item includes the following transitional adjustments:

- exclusion of unrealised gains on AFS securities, totalling 0,5 million Euro (-);
- positive filter on negative actuarial reserves (IAS 19), amounting to 0,04 million Euro (+);
- inclusion of minority interests subject to transitional provisions, totalling 52,6 million Euro (+).

2. Additional Tier 1 Capital (AT1)

G) Additional Tier 1 Capital (AT1) gross of items to be deducted and the effects of the transitional regime

This item includes the minority interests included in AT1, amounting to 29,1 million Euro;

I) Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries that are given recognition in AT1 pursuant to transitional provisions

This item includes minority interests subject to transitional provisions eligible to be recognised in AT1, totalling 11,6 million Euro (-).

3. Tier 2 Capital (T2)

M) Tier 2 Capital (T2) gross of items to be deducted and the effects of the transitional regime

This item includes the minority interests included in T2, amounting to 38,7 million Euro;

O) Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries that are given recognition in T2 pursuant to transitional provisions

This item includes minority interests subject to transitional provisions eligible to be recognised in T2, totalling 15,4 million Euro (-), and unrealised gains on AFS securities subject to transitional provisions eligible to be recognised in T2, totalling 0,08 million Euro (+)

B. Quantitative information

	31.12.2016	31.12.2015(1)
A. Common Equity Tier 1 (CET1) before application of prudential filters	**1.089.430**	**430.284**
of which CET1 instruments subject to transitional provisions	-	-
B. CET1 prudential filters (+/-)	-	-
C. CET1 gross of items to be deducted and the effects of the transitional regime (A+/-B)	1.089.430	430.284
D. Items to be deducted from CET1	110.343	42.925
E. Transitional regime - Impact on CET1 (+/-), including minority interests subject to transitional provisions	52.076	76.957
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**1.031.163**	**464.316**
G. Additional Tier 1 Capital (AT1) gross of items to be deducted and the effects of the transitional regime	**29.072**	**24.100**
of which AT1 instruments subject to transitional provisions	-	-
H. Items to be deducted from AT1	-	**-**
I. Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries that are given recognition in AT1 pursuant to transitional provisions	(11.629)	(14.460)
L. Total Additional Tier 1 Capital (AT1) (G-H+/-I)	**17.443**	**9.640**
M. Tier 2 Capital (T2) gross of items to be deducted and the effects of the transitional regime	38.744	32.133
of which T2 instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	-	**-**
O. Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries that are given recognition in T2 pursuant to transitional provisions	(15.421)	(19.280)
P. Total Tier 2 Capital (T2) (M-N+/-O)	**23.323**	**12.853**
Q. Total own funds (F+L+P)	**1.071.929**	**486.809**

(1) Total consolidated own funds (amounting to 486.809 thousands Euro) differ from the amount reported in the consolidated financial statements for the year ended 31 December 2015 (501.809 thousands Euro) due to the 15 million Euro dividend payout approved by the Shareholders' Meeting of the parent company La Scogliera S.p.A. on 23 March 2016. The consolidated supervisory reports at 31 December 2015, as well as the relevant capital adequacy ratios, had already been adjusted at the end of March 2016 to account for said dividend payout. The data on consolidated Own Funds and capital adequacy ratios account for the impact of said distribution.

2.3 Capital adequacy

A. Qualitative information

The prudential ratios at 31 December 2016 account for the adjustments required by the transitional provisions applying to the financial year 2016.

At 31 December 2016, Consolidated Own Funds totalled 1.071,9 million Euro, compared with 7.003,3 million Euro in risk-weighted assets, mainly because of credit and counterparty risks, as well as, to a lesser extent, operational and market risks.

As showed in the table on the breakdown of risk-weighted assets and prudential ratios, at 31 December 2016, the Banca IFIS Group had a CET1 capital ratio of 14,72%, a Tier1 capital ratio of 14,97%, and a Total capital ratio of 15,31%.

B. Quantitative information

Categories/Amounts	Non-weighted amounts		Weighted amounts / requirements	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
A. RISK ASSETS				
A.1 Credit risk and counterparty risk				
1. Standardised approach	9.248.594	7.139.747	6.192.897	2.704.228
2. Internal rating method	-	-	-	-
2.1 Basic indicator approach	-	-	-	-
2.2 Advanced measurement approach	-	-	-	-
3. Securitisation programmes	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS			-	-
B.1 Credit risk and counterparty risk			**495.432**	**216.338**
B 2. Credit valuation adjustment risk			**2.340**	-
B 3. Settlement risk				-
B.4 Market risks				
1. Standard method			3.482	3.054
2. Internal models				-
3. Concentration risk				-
B.5 Operational risk				
1. Basic indicator approach			59.010	41.735
2. Standardised approach				-
3. Advanced measurement approach				-
B.6 Other calculation factors				-
B.7 Total prudential requirements			**560.264**	**261.127**
C. RISK ASSETS AND CAPITAL REQUIREMENT RATIOS				-
C.1 Risk-weighted assets			7.003.305	3.264.088
C.2 Common equity tier 1 capital / Risk-weighted assets (CET1 Capital ratio)			14,72	14,22 (1)
C.2 Tier 1 Capital / Risk-weighted assets (Tier 1 capital ratio)			14,97	14,52 (1)
C.4 Total own funds / Risk-weighted assets (Total capital ratio)			15,31	14,91 (1)

(1) Total consolidated own funds (amounting to 486.809 thousands Euro) differ from the amount reported in the consolidated financial statements for the year ended 31 December 2015 (501.809 thousands Euro) due to the 15 million Euro dividend payout approved by the Shareholders' Meeting of the parent company La Scogliera S.p.A. on 23 March 2016. The consolidated supervisory reports at 31 December 2015, as well as the relevant capital adequacy ratios, had already been adjusted at the end of March 2016 to account for said dividend payout. The data on consolidated Own Funds and capital adequacy ratios account for the impact of said distribution.

Part G - Business combinations

Section 1 - Transactions carried out during the year

In November 2016, the Bank finalised the acquisition of the group headed by the former GE Capital Interbanca, which at 31 December 2016 was 99,993%-owned by the Banca IFIS Group. The company concerned and its subsidiaries operate in the following sectors: medium/long-term financing, structured financed, and operating and finance leases.

The acquisition was conducted by entering into a Share Purchase Agreement (SPA) on 28 July 2016 with GE Capital International Holdings Limited, and then a final sale on 30 November 2016 after obtaining the authorisation of the competent Supervisory Authorities on 29 November 2016.

Under IFRS 3, at the date of the business combination, the entity must identify the cost of the business combination and allocate it to the acquiree's identifiable assets, liabilities, and contingent liabilities at the acquisition date and measured at their fair values.

The cost of the acquisition of the GE Capital Interbanca Group was provisionally estimated at 119,2 million Euro (still gross of any additional adjustments to the price initially paid of 160 million Euro), as agreed: the cost is still subject to adjustments under the agreement with the seller.

Following the acquisition, in accordance with IASs/IFRSs, Banca IFIS conducted a Purchase Price Allocation (PPA), which consists in allocating the cost of the business combination, recognising the assets acquired, liabilities assumed, and contingent liabilities at their fair values at the acquisition date.

This phase of the allocation was based on a previous mapping of the assets and liabilities for which, considering all available information, significant differences between their fair value and carrying amount were deemed likely.

The consolidated assets and liabilities of the former GE Capital Interbanca Group at 30 November 2016 for which a difference between the carrying amount and fair value was found mainly referred to:

- loans to customers;
- tax assets and liabilities
- provisions for risks and charges.

The fair value of in-scope individual loans to customers was estimated using the discounted cash flow method, i.e. by discounting the future cash flows from the position. The cash flows used are those in the Target's systems, without making any changes to their amount or payment schedule. To calculate the amount, Banca IFIS identified the interest rate of the individual exposure that represents the market expected return for exposures with similar duration and risk characteristics.

In order to apply the above method, loans to customers were segmented into portfolios by type.

Here below are the details about the portfolios to which fair value adjustments were made following the fair valuation.

Lending portfolio at 30 November 2016 FV measurement summary	Performing	Non-performing past due	Unlikely to pay	Bad loans
Book value [A]	960.461	1.635	301.734	104.246
Full fair value [B]	785.159	1.635	149.950	25.844
Overall fair value adjustment [C=B-A]	**(175.302)**	**-**	**(151.784)**	**(78.402)**

CQS & Mortgage at 30 November 2016 FV measurement summary	Performing	Non-performing past due	Unlikely to pay	Bad loans
Book value [A]	159.605	6.943	18.800	11.667
Full fair value [B]	115.260	6.943	12.025	2.735
Overall fair value adjustment [C=B-A]	**(44.345)**	**-**	**(6.774)**	**(8.931)**

The tax assets and liabilities concerned consist of:

- deferred tax assets (DTAs) relating to previous tax losses for the years from 2009 to 2016 as well as other minor deductible temporary differences not recognised by the Target because of the uncertainty as to how and when sufficient future taxable profit will be available to recover them;
- gains and losses arising from the adjustment to fair value of the assets acquired and liabilities and contingent liabilities assumed as resulting from the PPA process.

The remaining allocations of fair value concerning Provisions for Risks and Charges referred to unfunded commitments (undrawn loan commitments) related to non-performing exposures as well as higher provisions for disputes for which it is possible that a net outflow of resources will be required to settle the obligation. The fair value of lawsuits against the Group backed by specific guarantees covering all costs associated with a potential defeat in court was estimated to be zero, since, in accordance with IAS 37, the best estimate of the expenditure required to settle the present obligation (i.e. the expenditure the entity would incur) is zero based on the Bank's internal assessment. Consistently with IFRS3, the value of the related indemnification assets was estimated to be zero for the same reasons.

Finally, Banca IFIS did not identify any intangible assets (such as client relationships, brand names) from which it could expect future economic benefits and whose fair value could be estimated reliably. As for property, plant and equipment, and specifically buildings, the fair value is equal to the Target's carrying amount according to the appraisals carried out at the acquisition date.

Under IFRS3, the allocation of the cost of the business combination must be definitively quantified within 12 months of the acquisition date. At the reporting date, the allocation process is to be considered provisional, as the price is subject to adjustments under the agreement with the seller.

Here below is the carrying amount and fair value of the assets and liabilities acquired:

SOFP Item	Description	Consolidated Interbanca Pre Acquisition	Acquired assets and liabilities at fair value	Fair value adjust-ments
	Equity	**963**	**743**	**(221)**
10.AP	Cash and cash equivalents	0	0	-
20.AP	Derivatives to customers	50	50	-
40.AP	AFS	64	64	-
60.AP	Due from banks	241	241	-
70.AP	Loans to customers	2.854	2.389	(466)
120.AP	Property, plant and equipment	46	46	-
130.AP	Int. assets with indefinite useful life	-	-	-
130.AP	Int. assets with finite useful life	1	1	-
140.AP; 80.PP	Tax assets and liabilities	248	499	251
160 AP	Other assets	73	73	-
10.PP	Due to banks	(1.838)	(1.838)	-
20.PP	Due to customers	(534)	(534)	-
30.PP	Outstanding securities	(84)	(84)	-
40.PP	Financial liabilities held for trading	(51)	(51)	-
100.PP	Other liabilities	(79)	(79)	-
110.PP	Post-employment benefits	(6)	(6)	-
120.PP	Provisions for risks and charges	(23)	(28)	(6)

The above mentioned purchase price allocation process revealed a negative difference between the purchase price and the fair value of the identifiable assets acquired, liabilities assumed and contingent liabilities net of taxes. This difference represents the gain on bargain purchase.

The gain on bargain purchase identified as part of the above allocation process amounted to 623,6 million Euro and was immediately recognised in profit or loss under “other operating income”. In the table showing the breakdown of other operating income, included in part C of these notes, this amount is reported separately under the subline item “Bargain on interest acquisition”.

Finally, the Group calculated the value to allocate to non-controlling interests, corresponding to a 0,01% interest in Interbanca, by estimating the fair value based on the purchase price.

Section 2 - Transactions carried out after the end of the year

The Banca IFIS Group did not carry out any business combinations between the end of the year and the date of preparation of these financial statements.

Section 3 – Retrospective adjustments

Despite the mentioned business combination as per IFRS 3, during the year the Bank did not make any retrospective adjustments.

Part H - Related-party transactions

In compliance with the provisions of Consob resolution no. 17221 of 12 March 2010 (as subsequently amended by means of Resolution no. 17389 of 23 June 2010) and the provisions of Circular 263/2006 (Title V, Chapter 5) of the Bank of Italy, Banca IFIS prepared the procedure relating to transactions with "related parties", the current version of which was approved by the Board of Directors on 10 November 2016. This document is publicly available on Banca IFIS's website, www.bancaifis.it, in the 'Corporate Governance' Section.

During 2016, no significant transactions with related parties were undertaken.

At 31 December 2016, the Banca IFIS Group S.p.A. was controlled by La Scogliera S.p.A. and consisted of the parent company Banca IFIS S.p.A., the wholly-owned subsidiary IFIS Finance Sp. Z o. o., the 99,99%-owned subsidiary Interbanca S.p.A. and its subsidiaries IFIS Leasing S.p.A., IFIS Factoring S.r.l., and IFIS Rental Services S.r.l., in which Interbanca owns directly and indirectly all voting rights.

The types of related parties, as defined by IAS 24, that are relevant for the Banca IFIS Group include:

- the parent company;
- key management personnel;
- close relatives of key management personnel and the companies controlled by (or associated to) them or their close relatives.

Here below is the information on the remuneration of key management personnel as well as transactions undertaken with the different types of related parties.

1. Information on the remuneration of key management personnel

The definition of key management personnel, as per IAS 24, includes all those persons having authority and responsibility for planning, directing and controlling the activities of Banca IFIS, directly or indirectly, including the Bank's directors (whether executive or otherwise).

In compliance with the provisions of the Bank of Italy's Circular no. 262 of 22 December 2005 (4th update of 16 December 2015), key management personnel also include the members of the Board of Statutory Auditors.

Key management personnel

Short-term employee benefits	Post employment benefits	Other long-term benefits	Termination benefits	Share-based payments
5.084	-	185	94	479

The above information includes fees paid to Directors (3,3 million Euro, gross amount) and Statutory Auditors (363 thousand Euro, gross amount).

2. Information on related-party transactions

Here below are the assets, liabilities, guarantees and commitments outstanding at 31 December 2016, broken down by type of related party pursuant to IAS 24.

Items	Parent company	Key management personnel	Other related parties	Total	As a % of the item
Loans to customers	-	-	1.687	**1.687**	0,0%
Other assets	43.864	-	-	**43.864**	17,6%
Total assets	**43.864**	**-**	**1.687**	**45.551**	**0,5%**
Due to customers	-	264	1.317	**1.581**	0,0%
Total liabilities	**-**	**264**	**1.317**	**1.581**	**0,0%**

Items	Parent company	Key management personnel	Other related parties	Total	As a % of the item
Interest receivable	-	-	40	**40**	0,0%
Interest due	-	(2)	(14)	**(16)**	0,0%
Commission income	-	-	12	**12**	0,0%
Other operating income/expenses	17	-	-	**17**	0,0%

Transactions with the **Parent Company** relate to:

- 4 thousand Euro in other assets for invoices issued to La Scogliera S.p.A. for chargebacks;
- Banca IFIS, together with the parent company, La Scogliera S.p.A., opted for the application of group taxation (tax consolidation) in accordance with arts. 117 et seq. of Italian Presidential Decree 917/86. Transactions between these companies were regulated by means of a private written agreement between the parties, signed in the month of April 2016. This agreement will lapse after three years. Banca IFIS has an address for the service of notices of documents and proceedings relating to the tax periods for which this option is exercised at the office of La Scogliera S.p.A., the consolidating company. Under this tax regime, Banca IFIS's taxable income is transferred to La Scogliera S.p.A., which is responsible for calculating the overall group income. As a result, at 31 December 2016 Banca IFIS recognised net receivables due from the parent company amounting to 43,9 million Euro.

Transactions with **key management personnel** relate almost entirely to rendimax or contomax savings accounts.

Transactions with **other related parties** are part of Banca IFIS's ordinary business and the conditions applied are at arm's length. Specifically, some individuals qualifying as other related parties held rendimax or contomax accounts with the Bank amounting to 1,3 million Euro overall.

During the year, the Bank continued its factoring operations in favour of one company headed by close relatives of executive members of the Board of Directors: the Banca IFIS Group's exposure at 31 December 2016 amounted to 0.5 million Euro.

In addition, there was a net 1,2 million Euro exposure classified under bad loans towards a company headed by closer relatives of executive members of the Board of Directors.

Part I - Share-based payment agreements

A. Qualitative information

1. Description of share-based payment agreements

Top Management's remuneration consists of fixed pay and variable pay calculated as a percentage of consolidated profit gross of taxes.

Variable pay, which is limited to a maximum proportional to fixed pay, is paid partly upfront and partly deferred.

Upfront variable pay is awarded and paid after the approval of the financial statements and ICAAP report for the year to which it refers.

Deferred variable pay is deferred by three years and is not paid if:

- there is a pre-tax loss;
- in one of the three years following its determination, “overall capital” is reported to be less than “overall internal capital” in the “ICAAP report” to be submitted every year to the Bank of Italy;
- at the end of the third year, the recipient is no longer in the position for which pay was awarded.

Starting from 2014, variable pay is paid 50% in cash and 50% in Banca IFIS S.p.A. shares. This applies to both upfront and deferred variable pay.

For this purpose, the Bank plans to use treasury shares in its portfolio; the reference price for determining the number of shares to the value of the variable pay concerned will be the average share price for the period from 1 April through 30 April of the year the compensation is awarded and paid.

Upfront variable pay can be clawed back if in the year following its award the right to it has not vested.

B. Quantitative information

The table on annual changes is not presented here, since for the Banca IFIS Group share-based payment agreements do not fall within the category concerned by said table.

2. Other information

The portion to be settled in shares of Top Management's variable pay awarded for the year 2016 amounts to 430 thousand Euro: the number of shares to be awarded will be calculated as described above.

BANCA IFIS

Part L - Segment reporting

The model for segment reporting is in line with the new organisational structure used by the Head Office to analyse Group results, which, following the acquisition of the former GE Capital Interbanca Group, now includes two new sectors: Corporate Banking and Leasing. In addition, since the acquisition date, the trade receivables sector has been benefiting from the contribution of IFIS Factoring.
Therefore, the organisational structure consists of the following segments: Trade receivables, Corporate banking, Leasing, NPL Area, Tax receivables, Governance and Services.
The Governance and Services segment manages the Group's financial resources and allocates funding costs to operating segments through the Group's internal transfer rate system.

Trade receivables

This segment includes the following business areas:

- Crediti Commerciali Italia and Crediti Commerciali International, dedicated to supporting the trade receivables of SMEs operating in the domestic market as well as companies growing abroad or based abroad and working with Italian customers; this area includes the operations carried out in Poland by the investee IFIS Finance's S.p. Zo.o.; these business areas operate under the Banca IFIS Impresa brand;
- Banca IFIS Pharma and Pharmacies, operating under the brand of the same name, supporting the trade receivables of local health services' suppliers and pharmacists.

Corporate Banking

This segment includes the following business areas:

- Medium/long/term financing, supporting the company's operating cycle through services ranging from working capital financing to the support for productive investments;
- Structured Finance, supporting companies in the legal, organisational and financial arrangement of bilateral or syndicated loans;
- Workout & Recovery, which manages the UTPs and Bad Loans of all the portfolios of the sector's other two business areas, as well as the runoff of project finance, shipping and real estate portfolios.

Leasing

This sector provides finance and operating leases to small businesses and SMEs.

NPL Area

This is the Banca IFIS Group's segment dedicated to non-recourse factoring and managing unsecured distressed retail loans. It serves households under the CrediFamiglia brand.

The business is closely associated with recovering and collecting non-performing exposures.

The Bank manages the portfolio of acquired receivables using two different methods: non-judicial and judicial operations.

As for the portfolio managed through non-judicial operations, to measure them the Bank uses a model based on a simulation of cash flows that projects the "breakdown" of the nominal amount of the receivable "over time" based on the historical recovery profile for similar clusters. As for the positions with funding characteristics (bills of exchange or settlement plans agreed with the debtor), the Bank uses a "deterministic" model based on the measurement of the future instalments of the settlement plan, net of the historical default rate.

Judicial operations consist in collecting debts through legal actions to secure a court order for the garnishment of one fifth of pension benefits or wages. The cash flows from judicial operations are not simulated using the model: the manager individually measures them for each individual position and enters them in the system.

Tax receivables

It is the segment specialised in purchasing tax receivables arising from insolvency proceedings; it operates under the Fast Finance brand and offers to buy both accrued and accruing tax receivables on which repayment has already been requested or which shall be requested in the future, and that arose during insolvency proceedings or in prior years. As a complement to its core business, this segment seldom acquires also trade receivables from insolvency proceedings.

Governance and services

Governance and Services provides the operating segments with the financial resources and services necessary to perform their respective business activities. The segment comprises, among other things, the resources required for the performance of the services of the Audit, Administration-Accounting, Planning, Organisation and ICT functions, as well as the structures responsible for raising, managing and allocating financial resources to the operating segments. The data includes the contribution of the former GE Capital Interbanca Group not allocated to individual segments.

Here below are the results achieved in 2016 by the various business segments.

STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Available for sale financial assets							
Amounts at 31.12.2016	-	-	-	-	-	*374.229*	*374.229*
Amounts at 31.12.2015	-	-	-	-	-	3.221.533	3.221.533
% Change	-	-	-	-	-	*(88,4)%*	*(88,4)%*
Due from banks							
Amounts at 31.12.2016	-	-	-	-	-	*1.393.358*	*1.393.358*
Amounts at 31.12.2015	-	-	-	-	-	*95.352*	*95.352*
% Change	-	-	-	-	-	*1361,3%*	*1361,3%*
Loans to customers							
Amounts at 31.12.2016	*3.092.488*	*905.682*	*1.235.638*	*562.146*	*124.697*	*7.561*	*5.928.212*
of which IFIS Factoring	*192.055*	-	-	-	-	-	*192.055*
Amounts at 31.12.2015	*2.848.124*	*n.a.*	*n.a.*	*354.352*	*130.663*	*103.997*	*3.437.136*
% Change	*8,6%*	*n.a.*	*n.a.*	*58,6%*	*(4,6)%*	*(92,7)%*	*72,5%*
Due to banks							
Amounts at 31.12.2016	-	-	-	-	-	*503.964*	*503.964*
Amounts at 31.12.2015	-	-	-	-	-	*662.985*	*662.985*
% Change	-	-	-	-	-	*(24,0)%*	*(24,0)%*
Due to customers							
Amounts at 31.12.2016	-	-	-	-	-	5.045.136	5.045.136
Amounts at 31.12.2015	-	-	-	-	-	5.487.476	*5.487.476*
% Change	-	-	-	-	-	*(8,1)%*	*(8,1)%*

INCOME STATEMENT DATA (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income							
Amounts at 31.12.2016	174.433	2.952	(1.172)	187.368	13.990	(18.972)	**358.599**
Amounts at 31.12.2015	*158.671*	*n.a.*	*n.a.*	*56.300*	*20.335*	*172.652*	***407.958***
% Change	*9,9%*	*n.a.*	*n.a.*	*232,8%*	*(31,2)%*	*(111,0)%*	***(12,1)%***
Net profit (loss) from financial activities							
Amounts at 31.12.2016	154.128	2.889	(2.682)	154.740	13.620	(23.329)	**299.366**
Amounts at 31.12.2015	*137.423*	*n.a.*	*n.a.*	*52.687*	*19.923*	*163.675*	***373.708***
% Change	*12,2%*	*n.a.*	*n.a.*	*193,7%*	*(31,6)%*	*(114,3)%*	***(19,9)%***

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES	CONS. GROUP TOTAL
Net banking income							
Fourth quarter 2016	53.142	2.952	(1.172)	51.825	3.126	(12.546)	**97.327**
Fourth quarter 2015	*39.728*	*n.a.*	*n.a.*	*22.402*	*8.828*	*5.834*	***76.792***
% Change	*33,8%*	*n.a.*	*n.a.*	*131,3%*	*(64,6)%*	*(315,0)%*	***26,7%***
Net profit (loss) from financial activities							
Fourth quarter 2016	48.061	2.889	(2.682)	42.780	3.025	(12.904)	**81.169**
Fourth quarter 2015	*33.237*	*n.a.*	*n.a.*	*21.818*	*8.542*	*5.106*	***68.703***
% Change	*44,6%*	*n.a.*	*n.a.*	*96,1%*	*(64,6)%*	*(352,7)%*	***18,1%***

SEGMENT KPIs (in thousands of Euro)	TRADE RECEIVABLES	CORPORATE BANKING	LEASING	NPL AREA	TAX RECEIVABLES	GOVERNANCE AND SERVICES
Turnover						
Amounts at 31.12.2016	10.549.881	n.a.	n.a.	n.a.	n.a.	n.a.
Amounts at 31.12.2015	10.126.397	n.a.	n.a.	n.a.	n.a.	n.a.
% Change	4,2%	-	-	-	-	-
Nominal amount of receivables managed						
Amounts at 31.12.2016	3.880.835	1.739.175	1.273.933	9.660.196	172.145	n.a.
Amounts at 31.12.2015	3.576.982	n.a.	n.a.	8.161.005	190.553	n.a.
% Change	8,5%	-	-	18,4%	(9,7)%	-
Cost of credit quality						
Amounts at 31.12.2016	0,8%	0,1%	1,5%	n.a.	n.a.	n.a.
Amounts at 31.12.2015	0,9%	n.a.	n.a.	n.a.	n.a.	n.a.
% Change	(0,1)%	n.a.	n.a.	-	-	-
Net bad loans/Loans to customers						
Amounts at 31.12.2016	1,0%	3,0%	0,5%	57,0%	0,0%	n.a.
Amounts at 31.12.2015	1,1%	n.a.	n.a.	45,0%	0,0%	n.a.
% Change	(0,1)%	n.a.	n.a.	12,1%	0,0%	-
Net bad loans/Equity						
Amounts at 31.12.2016	2,6%	2,2%	0,5%	n.a.	n.a.	n.a.
Amounts at 31.12.2015	5,4%	n.a.	n.a.	n.a.	n.a.	n.a.
% Change	(2,8)%	n.a.	n.a.	-	-	-
Coverage ratio on gross bad loans						
Amounts at 31.12.2016	88,5%	94,0%	92,2%	n.a.	n.a.	n.a.
Amounts at 31.12.2015	87,9%	n.a.	n.a.	n.a.	n.a.	n.a.
% Change	0,7%	n.a.	n.a.	-	-	-
Non-performing exposures/Loans to customers						
Amounts at 31.12.2016	6,5%	19,0%	3,0%	n.a.	n.a.	n.a.
Amounts at 31.12.2015	4,5%	n.a.	n.a.	n.a.	n.a.	n.a.
% Change	2,0%	n.a.	n.a.	-	-	-
Net non-performing loans/Equity						
Amounts at 31.12.2016	16,5%	14,1%	3,0%	n.a.	n.a.	n.a.
Amounts at 31.12.2015	22,4%	n.a.	n.a.	n.a.	n.a.	n.a.
% Change	(6,0)%	n.a.	n.a.	-	-	-
RWA						
Amounts at 31.12.2016	2.348.131	929.337	875.153	562.146	50.004	263.512(4)
Amounts at 31.12.2015	1.970.886	n.a.	n.a.	354.352	41.614	25.256
% Change	19,1%	n.a.	n.a.	58,6%	20,2%	943,4%

(1) Gross flow of the receivables sold by the customers in a specific period of time.
(2) Risk Weighted Assets; the amount refers exclusively to the financial items reported in the segments.
(3) Data restated after initial publication.
(4) The Governance and Services sector's RWAs include in 2016 the investment in IFIS Rental Services, a non-financial company consolidated using the equity method and that is not part of the Banking Group for supervisory purposes.

For a more detailed analysis of the results of the business sectors, please refer to the Directors' Report.

Venice - Mestre, 16 March 2017

For the Board of Directors

The Chairman
Sebastien Egon Fürstenberg

The C.E.O.
Giovanni Bossi

Country-by-country reporting

reference date 31 December 2016

Pursuant to the supervisory provisions for banks

Bank of Italy Circular no. 285/2013 – Part I – Title III – Chapter 2

In order to increase the EU public's trust in the financial sector, here below is the information as per the letters a), b) and c) of Annex A to Part I, Title III, Chapter 2 of Bank of Italy's Circular No. 285.

The information refers to the situation at 31 December 2016.

	INFORMATION/GEOGRAPHIC AREA	ITALY	POLAND	GROUP
a)	Company name	Banca IFIS S.p.A. Interbanca S.p.A.	IFIS Finance Sp. Z o.o.	Banca IFIS S.p.A. Group
	Nature of business	Collecting savings from the public and lending. Banca IFIS specialises in the segment of trade receivables, medium/long-term corporate lending and structured finance, leasing, distressed retail loans and tax receivables.	IFIS Finance provides financial support and credit management services to businesses.	Collecting savings from the public and lending. Banca IFIS specialises in the segment of trade receivables, distressed retail loans and tax receivables.
b)	Turnover[11] *(in thousands of Euro)*	355.230	3.369	358.599
c)	Number of full-time equivalents [12]	1.304,2	11,5	1.315,8
(d)	Pre-tax profit or loss *(in thousands of Euro)*	718.299	2.227	720.526
e)	Income tax *(in thousands of Euro)*	(32.086)	(455)	(32.541)
f)	*Government grants received* *(in thousands of Euro)*	-	-	-

[11] Turnover corresponds to the Net Banking Income as per item 120 of the Consolidated Income Statement at 31 December 2016.

[12] The “Number of full-time equivalents” is calculated, in accordance with the relevant Provisions, as the ratio of total hours worked by all employees (including overtime) and the total contract work hours per year of a full-time employee (i.e. the total available work hours in a year excluding 20 days of annual leave).

Declarations

Certification on the consolidated financial statements pursuant to the provisions of article 154-bis, paragraph 5, of the Legislative Decree 58 of 24 February 1998 and article 81-ter of Consob Regulation no. 11971 of 14 May 1999 as amended

1. We the undersigned, Giovanni Bossi – CEO and Mariacristina Taormina – in her capacity as Manager charged with preparing the financial reports of Banca IFIS S.p.A., having also taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of the Italian Legislative Decree no.58 dated 24 February 1998, hereby certify:
   i. The adequacy in relation to the characteristics of the Company,
   ii. The effective implementation

   of the administrative and accounting procedures for the preparation of Banca IFIS's consolidated financial statements, over the course of the period from January 1st, 2016 to December 31st, 2016.

2. The adequacy of the administrative and accounting procedures in place for preparing the consolidated financial statements as at December 31st, 2016 has been assessed through a process established by Banca IFIS S.p.A. on the basis of the guidelines set out in the *Internal Control – Integrated Framework* issued by the *Committee of Sponsoring Organizations of the Treadway Commission (CoSO)*, an internationally accepted reference framework.

3. The undersigned further confirm that:

   3.1 the consolidated financial statements as at December 31st, 2016:
   a) are prepared in compliance with International Accounting Standards, endorsed by the European Commission as for European regulation no. 1606/2002 of the European Parliament and Council of July 19th, 2002;
   b) correspond to the related books and accounting records;
   c) provide a true and correct representation of the financial position of the issuer and the group of companies included in the scope of consolidation.

   3.2 the management report contains a reliable analysis of the business outlook and management result, the financial position of the issuer and group of companies included in the scope of consolidation and a description of the main risks and uncertainties they are exposed to.

Venice, March 16th, 2017

CEO

Giovanni Bossi

Manager charged with preparing the Company's financial reports

Mariacristina Taormina