

BANCA IFIS

BANCA IFIS S.p.A.

2016
ANNUAL
REPORTS

VALUE TO YOUR BUSINESS

BANCA IFIS

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

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Introduction

Letter from the Chairman and the CEO to Shareholders

Chairman

Dear Shareholders,

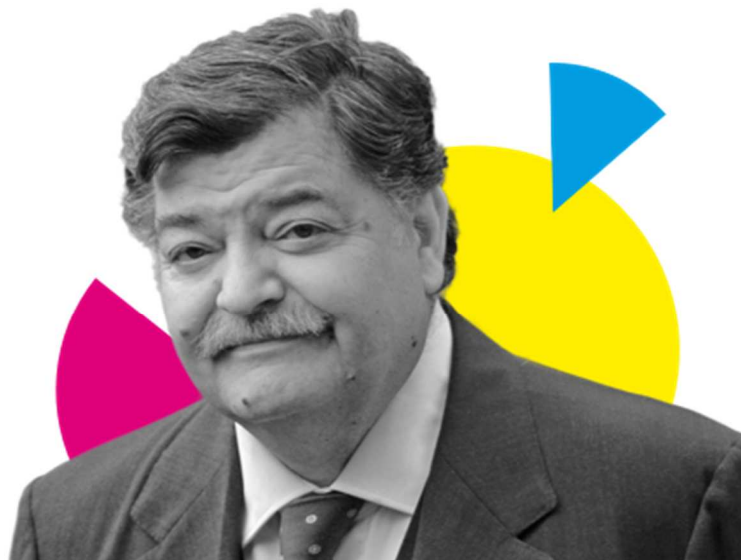
In the year just ended, our Bank made another important step forward on the growth path it has been on for years now.

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 1300. And the frenzy of activity and growth

that we experience every day at Banca IFIS 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.



Chairman SEBASTIEN EGON FÜRSTENBERG

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.

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.



Chief Executive Officer GIOVANNI BOSSI

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 1300 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 gives 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 Bank'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
SEBASTIEN EGON
FÜRSTENBERG

Amministratore Delegato
GIOVANNI
BOSSI

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 Ciriotta
	Massimo Miani
Alternate Auditors	Guido Gasparini Berlingieri
	Valentina Martina

Independent Auditors

EY S.p.A.

Corporate Accounting Reporting Officer

Mariacristina Taormina

BANCA IFIS

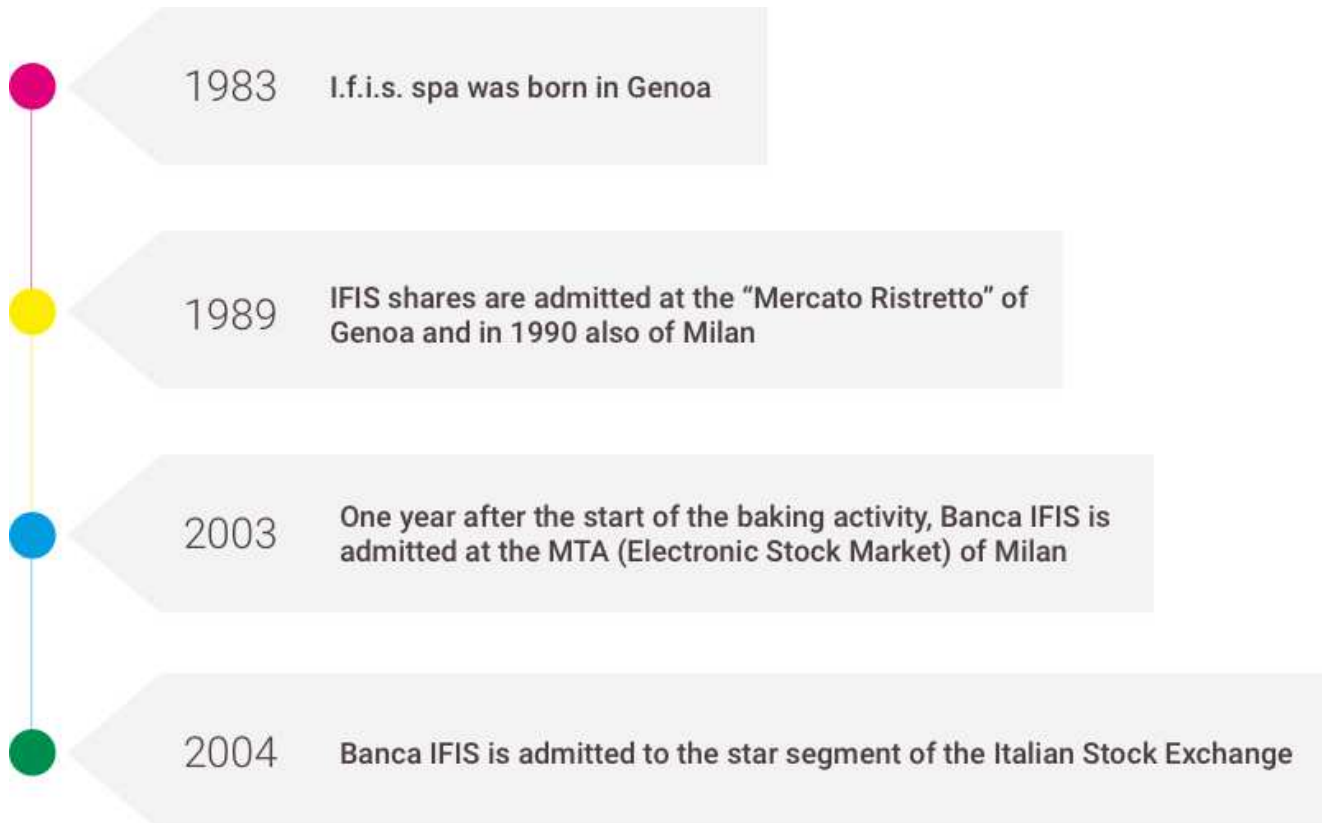
Fully paid-up share capital 53.811.095 Euro
 Bank Licence (ABI) No. 3205.2
 Tax Code and Venice Companies
 Register Number: 02505630109
 VAT No.: 02992620274
 Enrolment in the Register of Banks No.: 5508
 Registered and administrative office
 Via Terraglio 63, Mestre, 30174, Venice, Italy
 Website: www.bancaifis.it



Member of Factors
Chain International

Businesses and brands

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



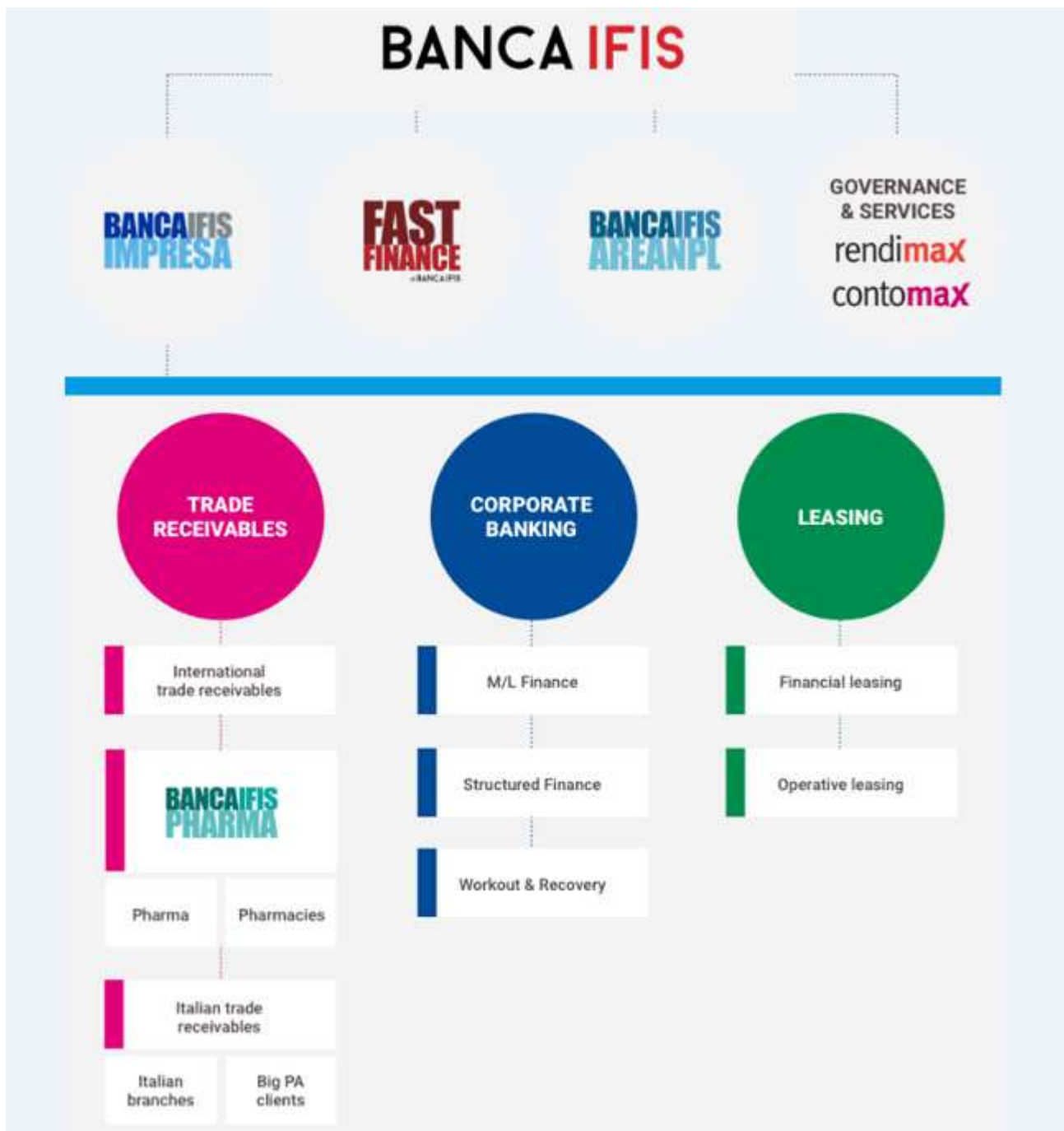
Solidity



Liquidity



Profitability



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 Banca IFIS 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 through the subsidiary IFIS Leasing. 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:** through the subsidiary Interbanca, it offers 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.

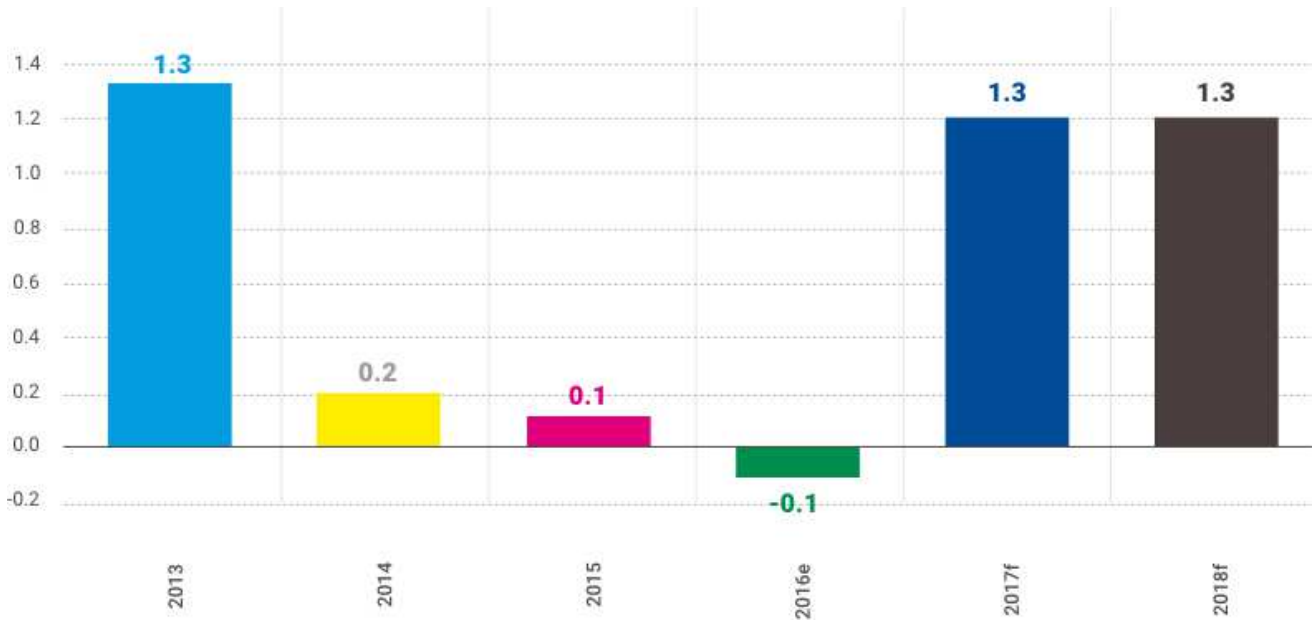
- **rendimax** and **contomax** are the Bank's two retail funding instruments. They are included in "Governance & Services" for segment reporting purposes. Specifically, rendimax is the high-yield online savings account for individuals, companies and insolvency proceedings, while contomax is the free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

Context

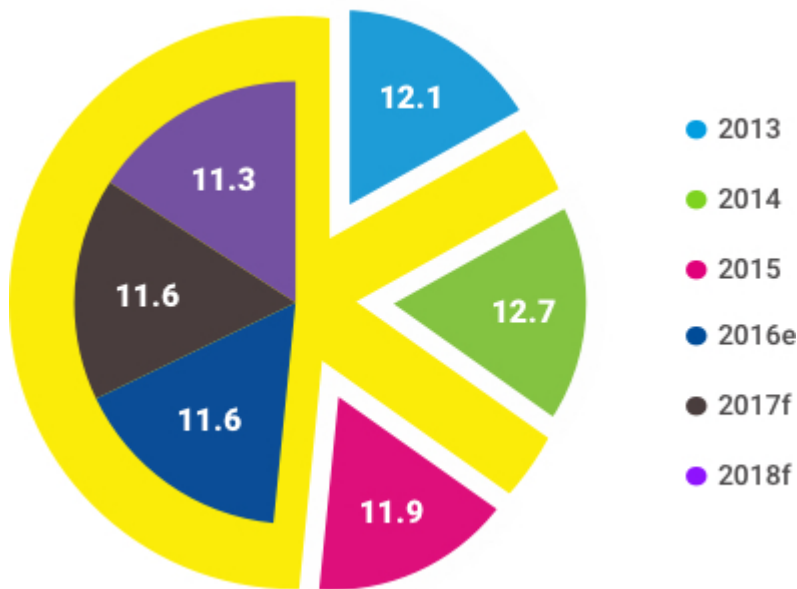
Global economic conditions have improved slightly, but several sources of uncertainty still cloud the outlook— especially in the United States, where the new administration has not yet fleshed out the details of its economic policies: the announced budget plans could have an expansionary impact— although 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)

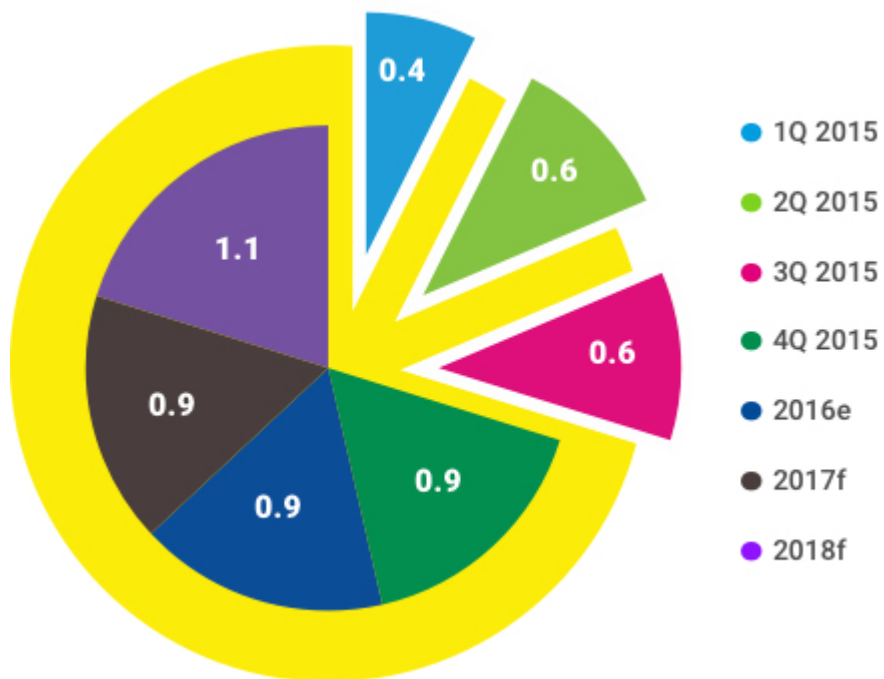


The data shows that the Italian economy continued recovering during the autumn, albeit moderately. Industrial production, energy consumption and freight transport are all up, and business confidence indicators are currently at high levels: therefore, in the fourth quarter of 2016 GDP could have risen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

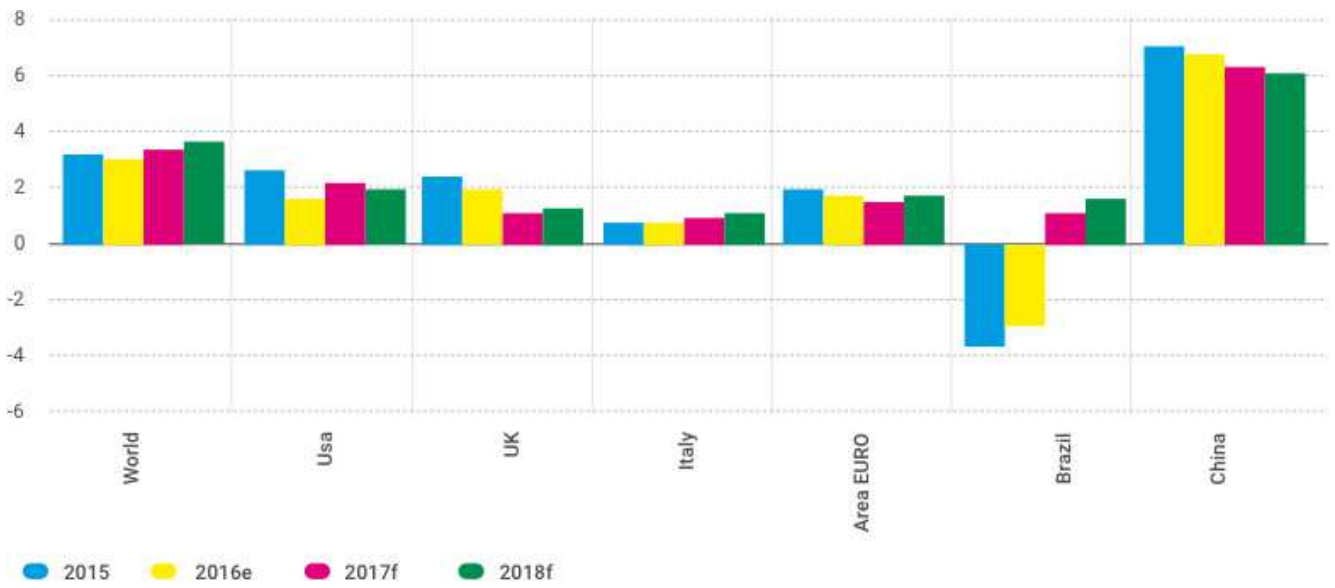


INDUSTRIAL PRODUCTION (YEAR-ON-YEAR PERCENTAGE CHANGE)

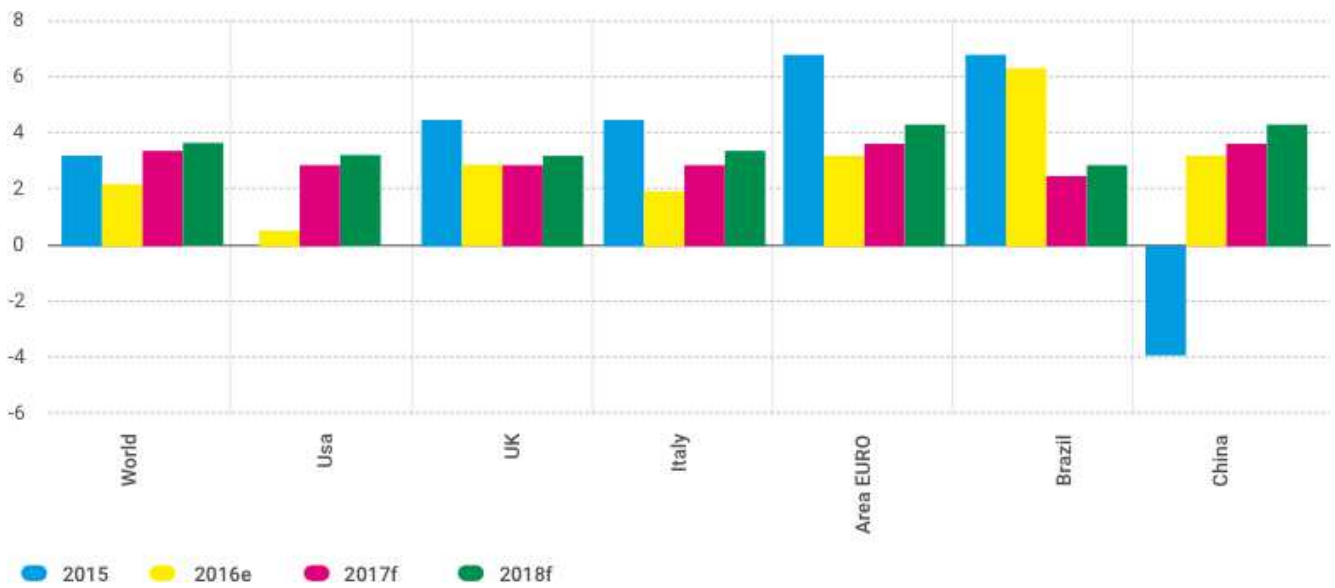


Italy's economy is projected to grow by 0,9 percent in both 2016 and 2017, and 1,1% in 2018 and 2019. Domestic and, starting from 2017, a gradually strengthening foreign demand are expected to remain the main drivers.

GDP



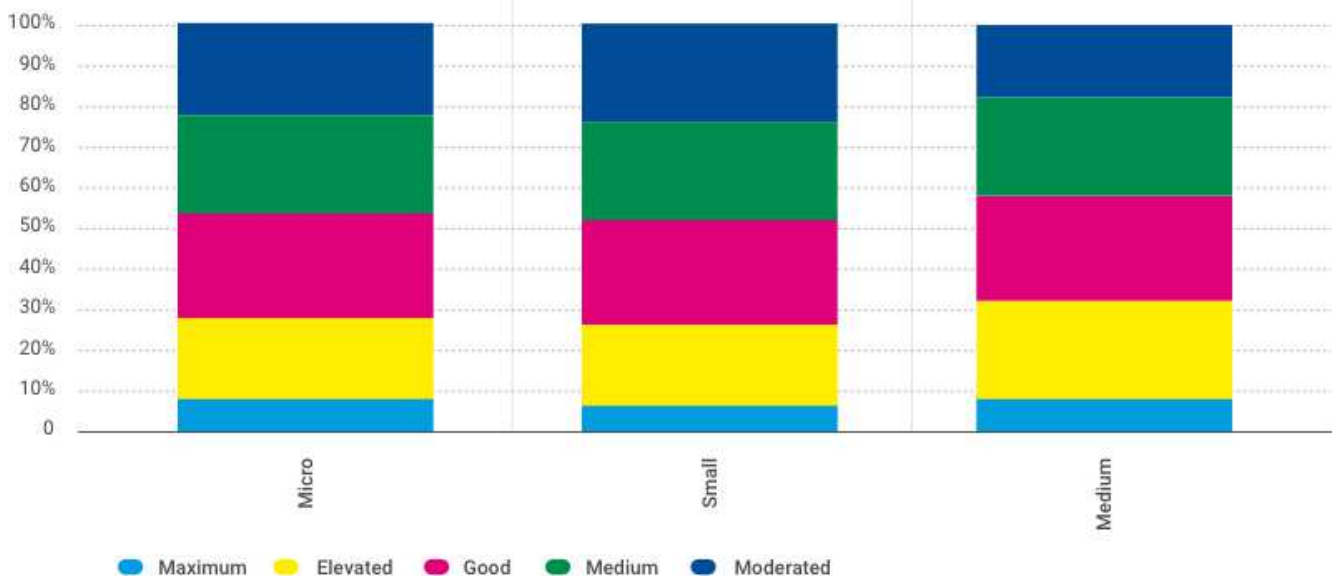
EXPORT



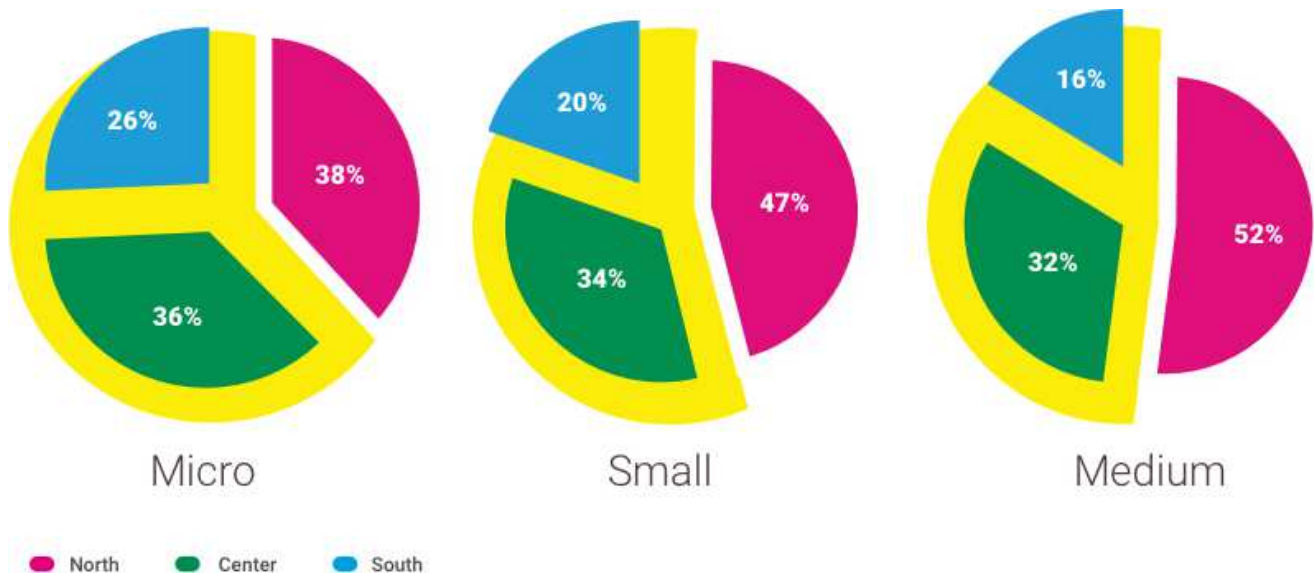
Reference markets

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

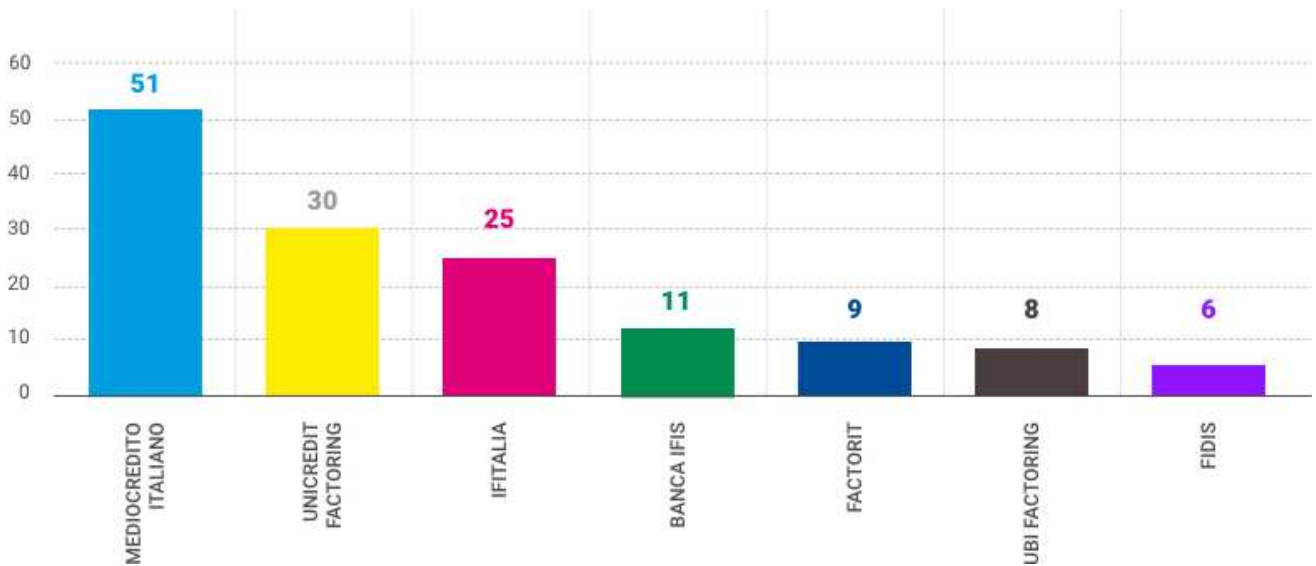


GEOGRAPHICAL DISTRIBUTION OF SMEs



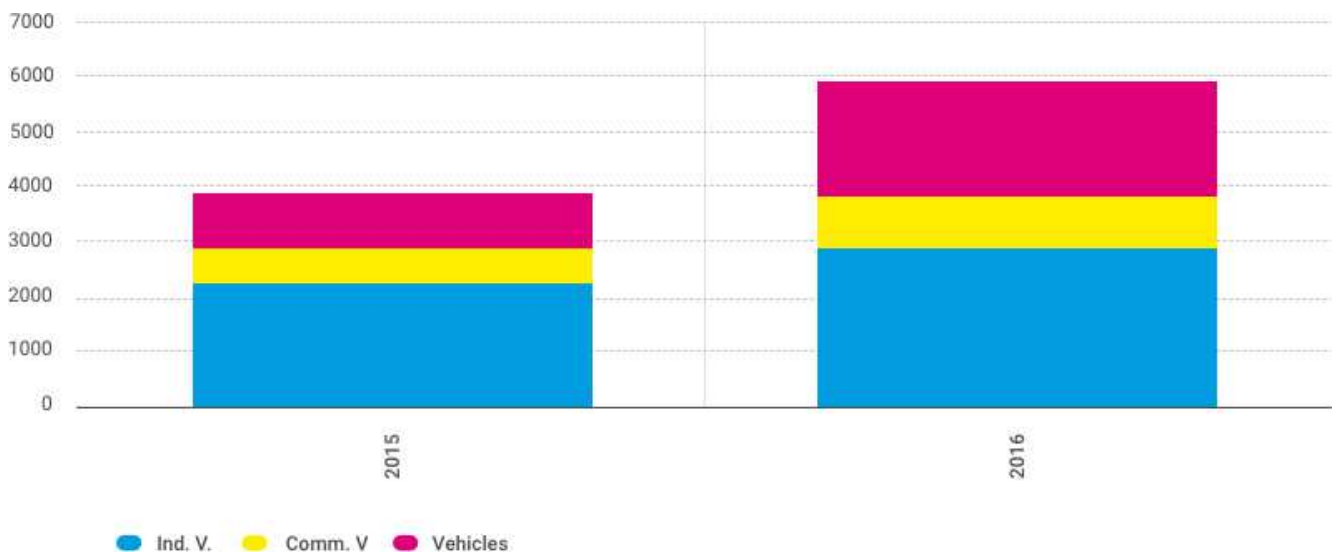
Factoring: Factoring turnover accounts for over 11% of GDP; in 2016, the product's growth rate has gradually increased compared to 2015, as volumes continued rising in the fourth quarter of last year—and the trend is expected to continue into 2017.

2016 COMPETITOR SCENARIO - Billions of €

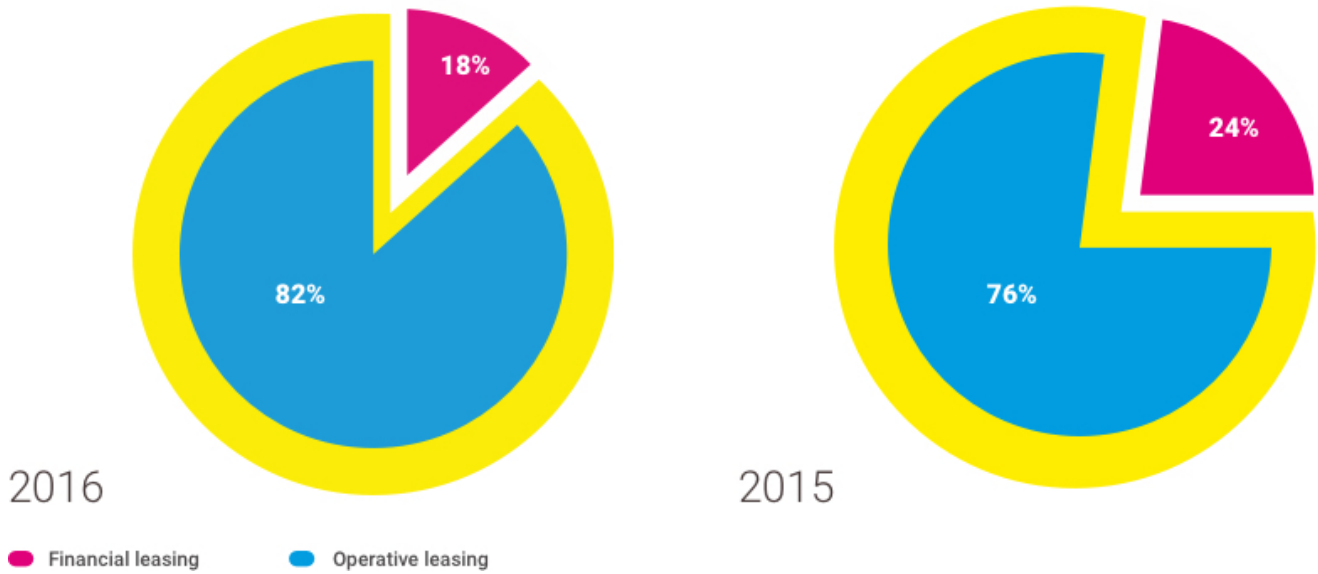


Leasing: In 2016, there was an acceleration in the growth trend that began in 2014, especially concerning light commercial vehicles and industrial ones. Leasing is forecast to continue growing in 2017, as businesses must keep on upgrading their equipment—and also because of government-backed incentive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

TRANSPORTATION LEASING (Volumes Dec. YTD)



EQUIPMENT LEASING (Volumes Dec. YTD)

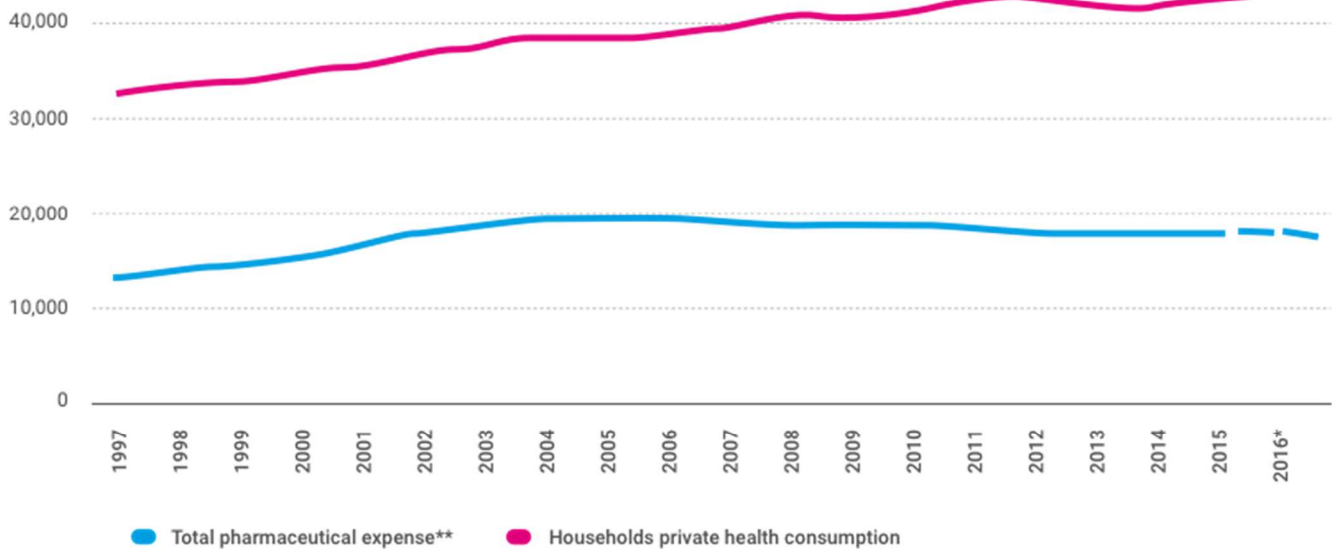


Structured Finance: Activity in the Italian M&A market remained brisk also in 2016, with 1.204 deals totalling 80 billion Euro. This trend was especially apparent in the Mid Size segment, where volumes were up +29,5% compared to the prior year. The financial sector saw the most number of deals, followed 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; parapharmaceuticals; cosmetics and personal care products; and dietary supplements.

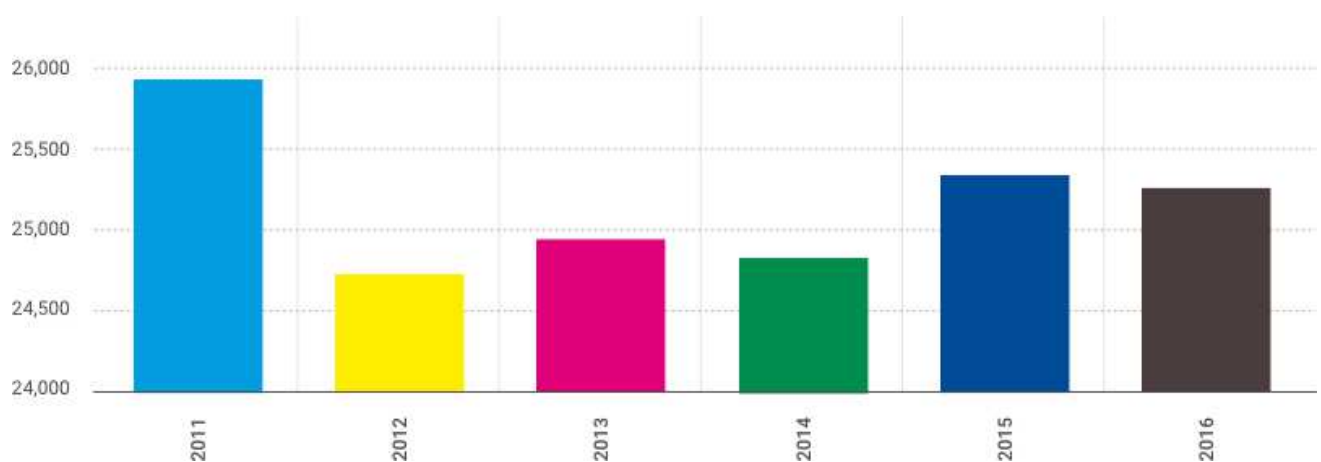
HOUSEHOLD PHARMACEUTICAL AND PRIVATE HEALTHCARE SPENDING*



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

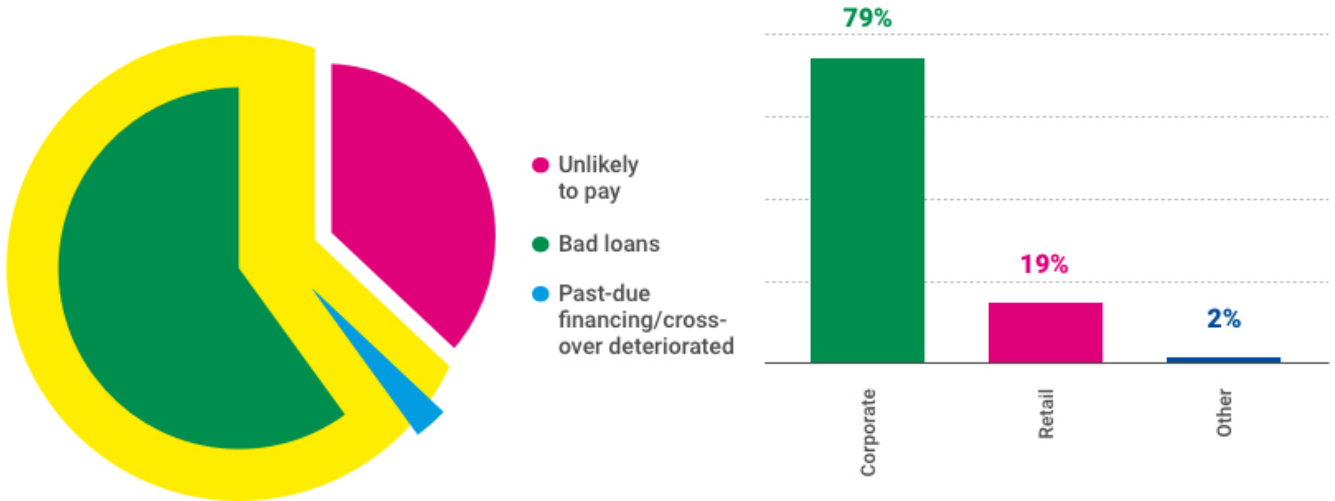
**Source: Farmindustria elaboration on ISTAT data, IMS **Comprehensive of the pharmacy channel, GDO and para-pharmacies gross of playback

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.

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:

- **New model to estimate cash flow associated with 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. 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.
- **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.

Highlights

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2016	31.12.2015	ABSOLUTE	%
Available for sale financial assets	325.050	3.221.533	(2.896.483)	(89,9)%
Loans to customers	4.464.566	3.414.808	1.049.758	30,7%
Total assets	7.037.838	6.950.249	87.589	1,3%
Due to banks	533.385	663.004	(129.619)	(19,6)%
Due to customers	5.662.176	5.487.213	174.963	3,2%
Equity	596.975	567.509	29.466	5,2%

INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	YEAR		CHANGE	
	31/12/2016	31/12/2015	ABSOLUTE	%
Net banking income ⁽¹⁾	320.654	401.561	(80.907)	(20,1)%
Net value adjustments on receivables and other financial assets ⁽¹⁾	(24.936)	(30.627)	5.691	(18,6)%
Net profit (loss) from financial activities	295.718	370.934	(75.216)	(20,3)%
Operating costs	(187.647)	(126.878)	(60.769)	47,9%
Gross profit	108.071	244.056	(135.985)	(55,7)%
Profit for the period	71.722	160.743	(89.021)	(55,4)%

(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.

(2) Excluding the gain made in April 2015 on the rebalancing of the government bond portfolio (124,5 million Euro) the profit for the period at 31 December 2015 amounted to 77,4 million Euro.

QUARTERLY INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	4th QUARTER		CHANGE	
	2015	2014	ABSOLUTE	%
Net banking income ⁽¹⁾	85.234	75.433	9.801	13,0%
Net value adjustments on receivables and other financial assets ⁽¹⁾	(5.458)	(7.502)	2.044	(27,2)%
Net profit (loss) from financial activities	79.776	67.931	11.845	17,4%
Operating costs	(69.678)	(46.934)	(22.744)	48,5%
Gross profit	10.098	20.997	(10.899)	(51,9)%
Profit for the period	6.665	12.877	(6.212)	(48,2)%

(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.

KPIs

RECLASSIFIED KPIs ⁽¹⁾	YEAR		% CHANGE
	2016	2015	
ROE	12,6%	30,2%	(17,6)%
ROA	1,5%	3,5%	(2,0)%
ROCA	1,4%	3,7%	(2,3)%
Cost/Income ratio	58,5%	31,3%	27,2%
Total Own Funds Capital Ratio	13,78%	15,59%	(1,81)%
Common Equity Tier 1 Ratio	13,78%	15,59%	(1,81)%
Number of company shares (in thousands)	53.811	53.811	0,0%
Number of shares outstanding at period end ⁽²⁾ (in thousands)	53.431	53.072	0,7%
Book per share	11,17	10,69	4,5%
EPS	1,35	3,03	(55,4)%
Recalculated EPS ⁽³⁾	1,35	1,46	(7,5)%
Dividend per share	0,82	0,76	7,9%
Payout ratio	61,1%	25,1%	36,0%

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

(3) EPS recalculated net of the gain on the sales of securities made during 2015.

Impact of regulatory changes

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

- 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 Banca IFIS'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.

Financial and income results

Statement of financial positions items

MAIN STATEMENT OF FINANCIAL POSITION ITEMS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	2016	2015	ABSOLUTE	%
Available for sale financial assets	325.050	3.221.533	(2.896.483)	(89,9)%
Due from banks	1.798.767	84.988	1.713.779	2016,5%
Loans to customers	4.464.566	3.414.808	1.049.758	30,7%
Property, plant and equipment and intangible assets	77.112	58.439	18.673	32,0%
Other assets	372.343	170.481	201.862	118,4%
Total assets	7.037.838	6.950.249	87.589	1,3%
Due to banks	533.385	663.004	(129.619)	(19,6)%
Due to customers	5.662.176	5.487.213	174.963	3,2%
Other liabilities	245.302	232.523	12.779	5,5%
Equity	596.975	567.509	29.466	5,2%
Total liabilities and equity	7.037.838	6.950.249	87.589	1,3%

Available for sale (AFS) financial assets, which include debt and equity securities, stood at 325,0 million Euro at 31 December 2016, -89,9% compared to 3.221,5 million Euro at the end of 2015. The valuation reserve, net of taxes, was positive to the tune of 1 million Euro at 31 December 2016 (11,7 million Euro at 31 December 2015).

At 31 December 2016, the **debt securities** portfolio amounted to 323,0 million Euro, down 90,0% 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. 2020	Overall total
Government bonds	270.292	52.741	323.033
<i>% of total</i>	83,7%	16,3%	100,0%

Available for sale financial assets include **equity securities** relating to non-controlling interests in unlisted companies, amounting to 2,0 million Euro (-57,1% compared to 31 December 2015). The change stemmed from 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 period, the Group recognised a 4,4 million Euro write-down of the equity interest in one investee after it was tested for impairment.

Receivables due from banks

At 31 December 2016, **receivables due from banks** totalled 1.798,8 million Euro, compared to 85,0 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

Total **loans to customers** amounted to 4.464,6 million Euro, up 30,7% from 3.414,8 million Euro at the end of 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 (+33,3%). Tax receivables were down as a result of the significant collections recognised during the year. Receivables in the Governance and Services sector fell 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: 22,4% are due from the Public Administration and 77,6% from the private sector (compared to 30,6% and 69,4% at 31 December 2015).

With regard to activities in support of SMEs, the loans duration was confirmed as short-term, in line with the Bank's strategy to support working capital. On average, it takes 3 months to collect receivables due from private sectors entities and nearly 4 months for those due from the Public Administration.

Finally, it should be noted that the item includes 2 positions, for a total amount of 217,7 million Euro, which fall within the category of major risks.

Total net **non-performing exposures**, which are significantly affected by the acquisitions finalised by the NPL Area during 2016, amounted to 746,8 million Euro in December 2016, compared to 483,0 million Euro at the end of 2015 (+54,6%).

Here below is the breakdown of forborne exposures by segment.

FORBEARANCE (in thousands of Euro)	TRADE RECEIVABLES	NPL AREA	TAX RECEIVABLES	TOTAL
Bad loans				
Amounts at 31.12.2016	2.439	33.550	-	35.989
Amounts at 31.12.2015	371	15.064	-	15.435
% Change	557,4%	122,7%	-	133,2%
Unlikely to pay				-
Amounts at 31.12.2016	19.312	53.368	-	72.680
Amounts at 31.12.2015	14.414	19.309	-	33.723
% Change	34,0%	176,4%	-	115,5%
Past due loans				-
Amounts at 31.12.2016	-	-	-	-
Amounts at 31.12.2015	5.300	-	-	5.300
% Change	(100,0)%	-	-	(100,0)%
Performing loans				-
Amounts at 31.12.2016	6.955	15	-	6.970
Amounts at 31.12.2015	2.954	5	-	2.959
% Change	135,4%	200,0%	-	135,6%

The trade receivables segment's net non-performing exposures, which actually determine the Bank's overall credit quality, rose 43,3%, from 128,7 million Euro at the end of 2015 to 184,5 million Euro. The largest increase was in past due loans. As a proportion of equity, non-performing exposures amounted to 30,9% (22,7% in December 2015).

NON-PERFORMING TRADE RECEIVABLES (in thousands of Euro)	BAD LOANS ⁽¹⁾	UNLIKELY TO PAY	PAST DUE LOANS	TOTAL
SITUATION AT 31/12/2016				
Nominal amount of non-performing exposures	272.952	76.528	103.211	452.691
<i>As a proportion of total receivables at nominal amount</i>	6,7%	1,9%	2,5%	11,2%
Value adjustments	241.260	25.641	1.326	268.227
<i>As a proportion of the nominal amount</i>	88,4%	33,5%	1,3%	59,3%
Net amount	31.692	50.887	101.885	184.464
<i>As a proportion of net total receivables</i>	0,8%	1,3%	2,7%	4,9%
SITUATION AT 31/12/2015				
Nominal amount of non-performing exposures	255.245	58.257	59.788	373.290
<i>As a proportion of total receivables at nominal amount</i>	8,3%	1,9%	1,9%	12,1%
Value adjustments	224.295	18.706	1.574	244.575
<i>As a proportion of the nominal amount</i>	87,9%	32,1%	2,6%	65,5%
Net amount	30.950	39.551	58.214	128.715
<i>As a proportion of net total receivables</i>	1,1%	1,4%	2,1%	4,6%

(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 0,8%, compared to 1,1% at 31 December 2015. Net bad loans amounted to 5,3% as a proportion of equity, compared to 5,5% at 31 December 2015. The coverage ratio stood at 88,4% (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 101,9 million Euro, compared with 58,2 million Euro in December 2015 (+75,0%). Past due loans to the public sector rose from 1,2 million Euro to 46,8 million Euro. The increase was attributable to the acquisitions of portfolios of past due loans 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 1,3% (2,6% at 31 December 2015)

Intangible assets and property, plant and equipment and investment property

Intangible assets totalled 13,1 million Euro, compared to 6,4 million Euro at 31 December 2015 (+106,6%). The item referred entirely to software.

Property, plant and equipment and investment property amounted to 64,0 million Euro, up +22,9% from 52,1 million Euro at the end of 2015 largely due to 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 mainly included: the important historical building Villa Marocco, located in Mestre (Venice) and housing Banca IFIS's registered office; and the property in Mestre (Venice), where some of the Bank's services were relocated.

Since these are luxury properties, they are not amortised, but are tested for impairment at least annually. To this end, they are appraised by experts specialising in luxury properties. In 2016, there were no indications requiring to test the assets for impairment.

There are also two buildings in Florence: the first, worth 3,7 million Euro, was acquired under a finance lease and housed the head office of the NPL business area until August 2016; the second, measured at 20,6 million Euro—including the mentioned restructuring costs—has become the new head office of said area.

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		CHANGE	
	2016	2015	ABSOLUTE	%
Irap (regional tax on productive activities)	8.922	-	8.922	n.a.
Ires (corporate income tax)	1.011	1.035	(24)	(2,3)%
Ires on sale of receivables	21.278	21.278	-	-
Others	2	2	-	-
Total	31.213	22.315	8.898	39,9%

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

DEFERRED TAX ASSETS [(in thousands of Euro)]	AMOUNTS AT		CHANGE	
	2016	2015	ABSOLUTE	%
Loans to customers	36.184	38.058	(1.874)	(4,9)%
Provisions for risks and charges	1.209	-	1.209	n.a.
Available for sale securities	0	-	-	n.a.
Property, plant and equipment	315	-	315	n.a.
Others	575	1.181	(606)	(51,3)%
Total	38.283	39.239	(956)	(2,4)%

Deferred tax assets associated with Loans to customers referred to value adjustments on receivables that can be deducted in the following years.

CURRENT TAX LIABILITIES [(in thousands of Euro)]	AMOUNTS AT		CHANGE	
	2016	2015	ABSOLUTE	%
IRAP Balance	-	4.093	(4.093)	(100,0)%
Total	-	4.093	(4.093)	(100,0)%

The main types of deferred tax liabilities are shown below:

DEFERRED TAX LIABILITIES (in thousands of Euro)	AMOUNTS AT		CHANGE	
	2016	2015	ABSOLUTE	%
Loans to customers	13.292	15.257	(1.965)	(12,9)%
Available for sale securities	394	5.770	(5.376)	(93,2)%
Property, plant and equipment	325	309	16	5,2%
Others	309	-	309	n.a.
Total	14.320	21.336	(7.016)	(32,9)%

Other assets and liabilities

Other assets amounted to 156,8 million Euro at 31 December 2016 (+90,5% from 31 December 2015). The item included 7,2 million Euro in receivables due from Italian tax authorities for payments on account (stamp duty and withholding taxes) as well as 26,9 million Euro in receivables due from the buyers of NPL portfolios. 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.

At the end of the period, other liabilities totalled 222,6 million Euro (+9,6% from the end of 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		CHANGE	
	31.12.2016	31.12.2015	ABSOLUTE	%
Due to customers:	5.662.176	5.487.213	174.963	3,2%
<i>Repurchase agreements</i>	270.314	2.278.983	(2.008.669)	(88,1)%
<i>Rendimax</i>	4.447.192	3.048.357	1.398.835	45,9%
<i>Contomax</i>	72.068	64.912	7.156	11,0%
<i>Other payables</i>	872.602	94.961	777.641	818,9%
Due to banks:	533.385	663.004	(129.619)	(19,6)%
<i>Eurosystem</i>	-	119.792	(119.792)	(100,0)%
<i>Repurchase agreements</i>	50.886	384.225	(333.339)	(86,8)%
<i>Other payables</i>	482.499	158.987	323.512	203,5%
Total funding	6.195.561	6.150.217	45.344	0,7%

Total funding, which amounted to 6.195,6 million Euro at 31 December 2016, (+0,7% compared to 31 December 2015), is represented for 91,4% by **Payables due to customers** (compared to 89,2% at 31 December 2015) and for 8,6% by **Payables due to banks** (compared to 10,8% at 31 December 2015).

Payables due to customers at 31 December 2016 totalled 5.662,2 million Euro, up 3,2% compared to 31 December 2015. 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%. At 31 December 2015, repurchase agreements with underlying government bonds and Cassa di Compensazione e Garanzia as counterparty were down 2.279,0 million Euro, and then Banca IFIS made 270,3 million Euro worth of purchases.

Payables due to banks, totalling 533,4 million Euro (compared to 663,0 million Euro in December 2015), were down 19,6% 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 482,5 million Euro from 159,0 million Euro at the end of the previous year (+203,5%).

Provisions for risks and charges

PROVISIONS FOR RISKS AND CHARGES (in thousands of Euro)	YEAR		CHANGE	
	2016	2015	ABSOLUTE	%
Legal disputes	1.855	1.513	342	22,6%
Tax dispute	-	197	(197)	(100,0)%
Share of the Interbank Deposit Protection Fund's intervention	-	461	(461)	(100,0)%
Other provisions	2.476	-	2.476	n.a.
Total provisions for risks and charges	4.331	2.171	2.160	99,5%

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.

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

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.

Equity and capital adequacy ratios

At 31 December 2016, Equity was 597,0 million Euro, compared to 567,5 million Euro at 31 December 2015 (+5,2%). 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		CHANGE	
	31.12.2016	31.12. 2015	ABSOLUTE	%
Share capital	53.811	53.811	-	0,0%
Share premiums	101.776	58.900	42.876	72,8%
Valuation reserves:	747	11.510	(10.763)	(93,5)%
- AFS securities	955	11.677	(10.722)	(91,8)%
- Post-employment benefits	(208)	(167)	(41)	24,6%
Reserves	372.106	288.350	83.756	29,0%
Treasury shares	(3.187)	(5.805)	2.618	(45,1)%
Profit for the period	71.722	160.743	(89.021)	(55,4)%
Equity	596.975	567.509	29.466	5,2%

EQUITY: CHANGES (in thousands of Euro)	YEAR 2016
Equity at 31.12.2015	567.509
Increases:	80.571
Profit for the year	71.722
Sale/grant of treasury instruments	8.681
Other changes	168
Decreases:	51.105
Dividends distributed	40.342
Change in valuation reserve:	10.763
- AFS securities	10.722
- Post-employment benefits	41
Equity at 31.12.2016	596.975

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.

OWN FUNDS AND CAPITAL ADEQUACY RATIOS (in thousands of Euro)	AMOUNTS AT	
	31.12.2016	31.12.2015
Common equity Tier 1 Capital ⁽¹⁾ (CET1)	539.322	509.281
Tier 1 Capital (T1)	539.321	509.280
Total own funds	539.358	509.280
Total RWA	3.913.075	3.266.381
Common Equity Tier 1 Ratio	13,78%	15,59%
Tier 1 Capital Ratio	13,78%	15,59%
Total Own Funds Capital Ratio	13,78%	15,59%

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

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.

The measures concerning own funds provide for the gradual phase-in of a new regulatory framework, with a transitional period lasting until 2017.

Banca IFIS, 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 775 thousand Euro.

Income statements items

Formation of net banking income

Net banking income totalled 353,3 million Euro, down 12,8% from 405,2 million Euro in the prior year. The latter amount included the 124,5 million Euro gain from the rebalancing of the government bond portfolio completed in April 2015: excluding this one-off item, net banking income was up 25,9%.

Net banking income at 31 December 2016 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		CHANGE	
	2016	2015	ABSOLUTE	%
Net interest income	252.976	207.427	45.549	22,0%
Net commission income	50.790	57.126	(6.336)	(11,1)%
Net result from trading	(508)	(6)	(502)	8366,7%
Profit (loss) from sale or buyback of receivables	44.529	14.948	29.581	197,9%
Profit from sale or buyback of financial assets	5.495	125.679	(120.184)	(95,6)%
Net banking income	353.282	405.174	(51.892)	(12,8)%

In the **fourth quarter**, net banking income stood at 94,3 million Euro, up from 76,0 million Euro in the prior-year period (+24,0%).

Net interest income rose from 207,4 million Euro at 31 December 2015 to 253,0 million Euro at 31 December 2016 (+22,0%).

Net commission income totalled 50,8 million Euro, down from 31 December 2015 (-11,1%).

Commission income, totalling 56,3 million Euro (compared to 61,5 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 5,5 million Euro (compared to 4,4 million Euro at 31 December 2015), came primarily from 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

Net profit from financial activities totalled 295,7 million Euro, compared to 370,9 million Euro at 31 December 2015 (-20,3%). Excluding the gain on the sale of financial assets made in April 2015 on the rebalancing of the government bond portfolio (124,5 million Euro), net profit from financial activities was up +20,9%.

FORMATION OF NET PROFIT FROM FINANCIAL ACTIVITIES (in thousands of Euro)	YEAR		CHANGE	
	2016	2015	ABSOLUTE	%
Net banking income	353.282	405.174	(51.892)	(12,8)%
Net impairment losses on	(57.564)	(34.240)	(23.324)	68,1%
loans and receivables	(53.208)	(25.263)	(27.945)	110,6%
available for sale financial assets	(4.356)	(8.977)	4.621	(51,5)%
Net profit (loss) from financial activities	295.718	370.934	(75.216)	(20,3)%

Net value adjustments on receivables totalled 53,2 million Euro (compared to 25,3 million Euro at 31 December 2015, +110,6%). 32,6 million Euro referred to the NPL Area. 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.

Net value adjustments on available for sale financial assets, totalling 4,4 million Euro at 31 December 2016 (9,0 million Euro at 31 December 2015), 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 79,8 million Euro (compared to 67,9 million Euro in the fourth quarter of 2015).

Formation of profit for the year

Profit for the period totalled 71,7 million Euro, compared to 160,7 million Euro in 2015 (down 55,4%). Excluding the gain on the sale of financial assets made in April 2015 on the rebalancing of the government bond portfolio, profit for the period was down 7,4%.

FORMATION OF PROFIT FOR THE PERIOD (in thousands of Euro)	YEAR		CHANGE	
	2016	2015	ABSOLUTE	%
Net profit (loss) from financial activities	295.718	370.934	(75.216)	(20,3)%
Operating costs	(187.647)	(126.878)	(60.769)	47,9%
Pre-tax profit from continuing operations	108.071	244.056	-135.985	(55,7)%
Income tax expense for the period	(36.349)	(83.313)	46.964	(56,4)%
Profit for the period	71.722	160.743	-89.021	(55,4)%

At 31 December 2016, operating costs were up 47,9% from 126,9 million Euro at the end of 2015 to 187,6 million Euro. As far as day-to-day operations are concerned, the rise was attributable to the NPL Area, which saw a significant increase in master data search costs—especially concerning employment information. These costs are necessary to reclassify the positions being processed as part of judicial operations, which have been given priority over non-judicial operations starting from January 2016. In addition, there was an increase in commission expense due to the acceleration in the activation of the plans collected. During the period, the Bank reviewed the compensation policy for in-house and external agents, aligning the settlement of the commission with the accounting activation of the relevant plan for the Bank, thus better matching revenues and expenses.

Operating costs also included the costs related to the provisions for contingent liabilities arising from legal disputes, the settlement of a tax dispute, and the contributions to the Italian Bank Resolution Fund (Single Resolution Fund Directive 59/201/EU) as well as the Deposit Guarantee Scheme (Directive 2014/49/EU Deposit Guarantee Schemes Directive – DGS).

The cost/income ratio stood at 53,1% at 31 December 2016, compared to 31,3% at 31 December 2015.

OPERATING COSTS (in thousands of Euro)	YEAR		CHANGE	
	2016	2015	ABSOLUTE	%
Personnel expenses	56.189	47.737	8.452	17,7%
Other administrative expenses	120.039	78.386	41.653	53,1%
Allocations to provisions for risks and charges	2.225	229	1.996	871,6%
Net value adjustments on property, plant and equipment and intangible assets	5.851	3.732	2.119	56,8%
Other operating charges (income)	3.343	(3.206)	6.549	(204,3)%
Total operating costs	187.647	126.878	60.769	47,9%

Personnel expenses, totalling 56,2 million Euro, were up 17,7% as a result of the increase in the number of employees, rising from 711 at the end of 2015 to 832 at the end of 2016 (+17,0%). The increase is consistent with the goal to strengthen some areas and services supporting the business—especially in the NPL Area—and the scenario in which the Bank operates.

Other administrative expenses totalled 120,0 million Euro, up 53,1% from 78,4 million Euro at the end of 2015 largely because of the higher business volumes concerning NPL receivable. 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 in 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.

OTHER ADMINISTRATIVE EXPENSES □ (in thousands of Euro)	YEAR		CHANGE	
	2016	2015	ABSOLUTE	%
Expenses for professional services	54.777	30.895	23.882	77,3%
Legal and consulting services	23.773	13.823	9.950	72,0%
Auditing	234	204	30	14,7%
Outsourced services	30.770	16.868	13.902	82,4%
Direct and indirect taxes	14.339	8.722	5.617	64,4%
Expenses for purchasing goods and other services	50.923	38.769	12.154	31,3%
Customer information	11.282	6.793	4.489	66,1%
Postage of documents	5.203	3.621	1.582	43,7%
Software assistance and hire	4.790	3.267	1.523	46,6%
Property expenses	4.284	4.442	(158)	(3,6)%
Advertising and inserts	3.671	2.145	1.526	71,1%
Car fleet management and maintenance	2.275	2.194	81	3,7%
Telephone and data transmission expenses	1.834	1.433	401	28,0%
Employee travel	1.611	1.114	497	44,6%
Other sundry expenses	15.973	13.760	2.213	16,1%
Total administrative expenses	120.039	78.386	41.653	53,1%
Expense recoveries	(2.348)	(2.998)	650	(21,7)%
Total net other administrative expenses	117.691	75.388	42.303	56,1%

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 2,2 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 activated by the subsidiary IFIS Leasing (eligible securities). In addition, the Bank recouped 251 thousand Euro after settling a tax dispute and 461 thousand Euro related to an allocation to the Interbank Deposit Protection Fund.

Other net operating expenses totalled 3,3 million Euro, including 2,8 million Euro in the expense incurred for a legal dispute and 1,5 million Euro in 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 108,1 million Euro, compared to 244,1 million Euro at 31 December 2015.

Income tax expense amounted to 36,3 million Euro, compared to 83,3 million Euro at 31 December 2015. The tax rate edged down from 34,1% at 31 December 2015 to 33,6% at 31 December 2016.

Profit for the period totalled 71,7 million Euro, compared to 160,7 million Euro in 2015. Excluding the gain on the sale of financial assets made in April 2015 on the mentioned rebalancing of the government bond portfolio, profit for the period was down 7,4%.

The corresponding figure for the **fourth quarter** was 6,7 million Euro (12,9 million Euro in the prior-year period).

Main risks and uncertainties

Taking into account the business carried out and the results achieved, the Bank's financial position is proportionate to its needs. Indeed, the Bank'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 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 Financial Statements for further information on risks.

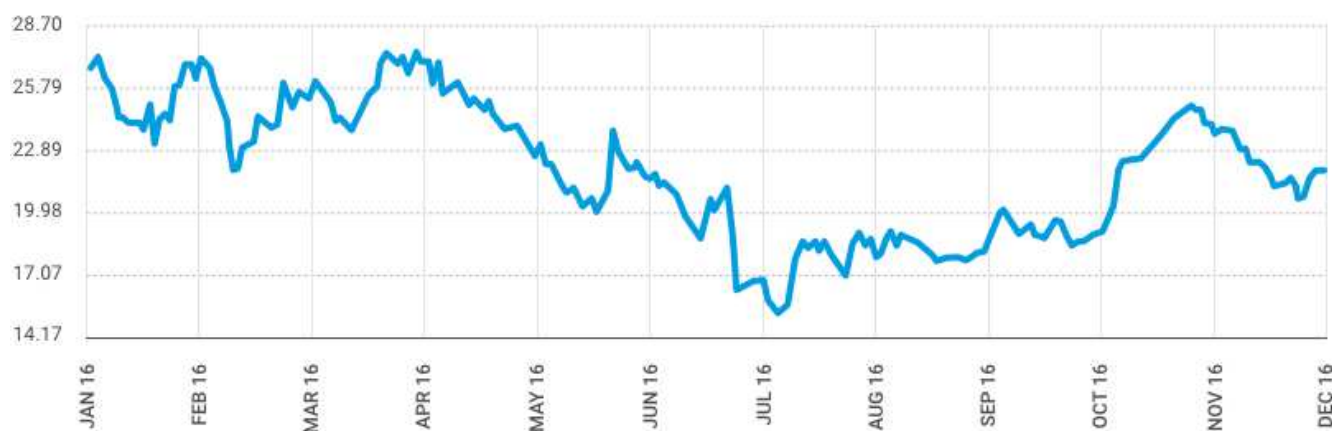
Banca IFIS shares

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 market for unlisted securities) 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



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.

Payout ratio

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

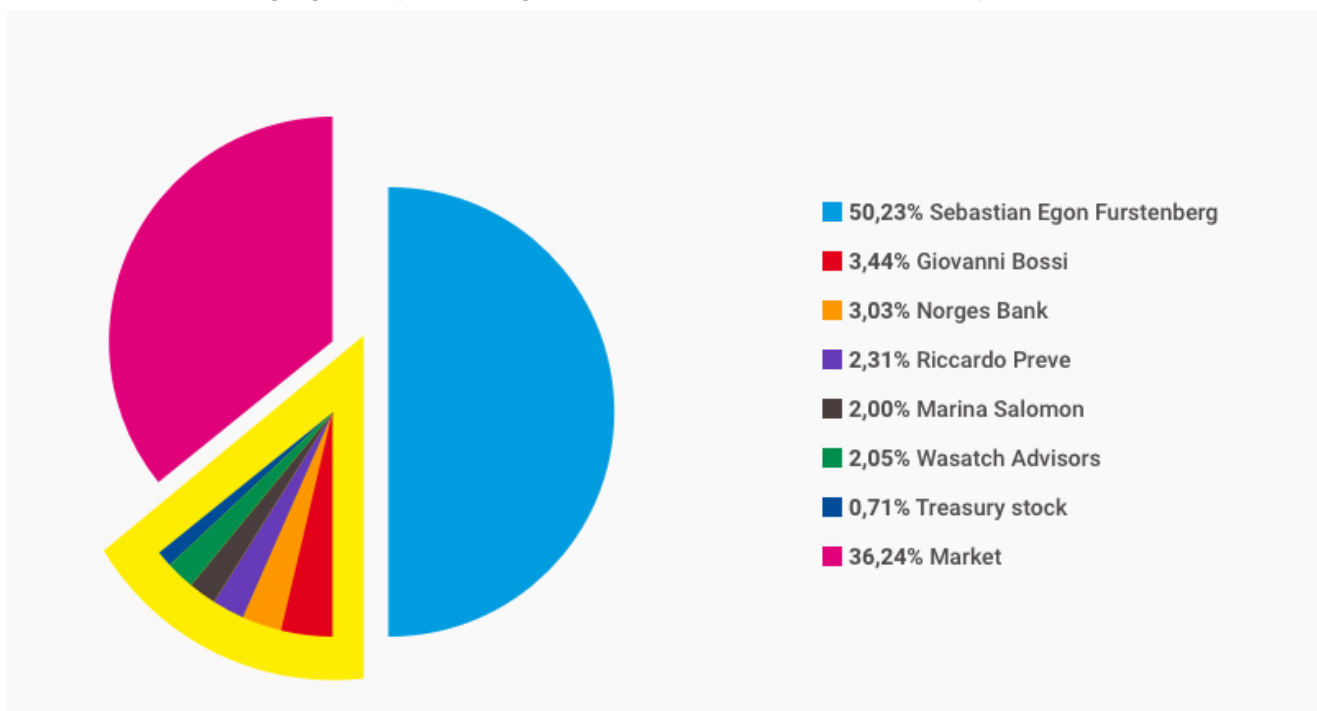
Payout ratio (in thousands of Euro)	2016	2015 ⁽¹⁾	2014	2013	2012
Profit for the period	71.722	160.743	94.396	83.404	76.925
Dividends	43.813	40.334	34.930	30.055	19.813
Payout ratio	61,1%	25,1%	37,0%	36,0%	25,9%

⁽¹⁾ The 2015 payout ratio was affected by the gain from the rebalancing of the government bond portfolio that went to bolster the Bank's capital position. Excluding this net component from the profit for the year, the 2015 payout ratio would amount to 52,1%.

Shareholders

The share capital 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 30 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, Banca IFIS'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. 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.

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 Bank will continue focusing on smaller entities: given the need to pay close attention during the lending process to mitigate risks by using factoring, 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 Bank is conducting a number of transactions to monetise assets through securitisations that, based on the quality of the underlying assets, will be financed on 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, Banca IFIS 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 Bank can reasonably expect to remain profitable also in 2017.

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.

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.

In 2016, Banca IFIS carried out a major transaction with the subsidiary IFIS Finance Sp. Z o.o., as disclosed on the Bank's website under the section "Institutional Investors", subsection "Information documents".

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, Banca IFIS 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, Banca IFIS did not implement any research and development programmes during the year.

Annual profit distribution proposal

Dear Shareholders,

The Board of Directors proposes to allocate the profit for the year, amounting to 71.721.930 Euro, as follows:

a) to the shareholders a cash dividend (before tax withholdings required by law) of Euro 0,82 per ordinary share with ex-dividend date (coupon no. 20) on 24 April 2017. This dividend includes the portion attributable to the company's treasury shares. As per article 83-terdecies of Italian Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance), eligibility for the dividend is determined based on the shareholders of record on the intermediary's books as per article 83-quater, paragraph 3 of the Consolidated Law on Finance at the end of 25 April 2017 (so-called record date);

b) the residual to other reserves.

Venice - Mestre, 16 March 2017

For the Board of Directors

The Chairman

Sebastien Egon Fürstenberg

The C.E.O.

Giovanni Bossi

Financial Statements

Statement of financial position

	Assets (in Euro)	31.12.2016	31.12.2015
10.	Cash and cash equivalents	32.248	34.134
20.	Financial assets held for trading	486.826	260.168
40.	Available for sale financial assets	325.049.649	3.221.533.493
60.	Due from banks	1.798.767.479	84.988.423
70.	Loans to customers	4.464.565.404	3.414.807.438
100.	Equity investments	145.558.254	26.356.254
110.	Property, plant and equipment	63.994.603	52.088.607
120.	Intangible assets	13.117.214	6.350.278
130.	Tax assets	69.496.078	61.554.061
	a) current	31.212.891	22.314.853
	b) deferred	38.283.187	39.239.208
150.	Other assets	156.770.172	82.276.931
	Total assets	7.037.837.927	6.950.249.787

	Liabilities and equity (in Euro)	31.12.2016	31.12.2015
10.	Due to banks	533.384.903	663.004.421
20.	Due to customers	5.662.176.245	5.487.212.960
40.	Financial liabilities held for trading	2.498.385	337.907
80.	Tax liabilities	14.319.727	25.428.759
	a) current	-	4.092.475
	b) deferred	14.319.727	21.336.284
100.	Other liabilities	222.646.257	203.132.042
110.	Post-employment benefits	1.506.747	1.452.715
120.	Provisions for risks and charges	4.331.389	2.171.471
	b) other reserves	4.331.389	2.171.471
130.	Valuation reserves	747.127	11.510.521
160.	Reserves	372.105.867	288.349.914
170.	Share premiums	101.775.463	58.899.756
180.	Share capital	53.811.095	53.811.095
190.	Treasury shares (-)	(3.187.208)	(5.805.027)
200.	Profit (loss) for the period (+/-)	71.721.930	160.743.253
	Total liabilities and equity	7.037.837.927	6.950.249.787

Income Statement

Items (in Euro)		31.12.2016	31.12.2015
10.	Interest receivable and similar income	308.709.324	249.001.898
20.	Interest due and similar expenses	(55.733.063)	(41.574.497)
30.	Net interest income	252.976.261	207.427.401
40.	Commission income	56.253.083	61.482.094
50.	Commission expense	(5.462.938)	(4.356.183)
60.	Net commission income	50.790.145	57.125.911
70.	Dividends and similar income	250	406
80.	Net result from trading	(508.978)	(6.139)
100.	Gain (loss) on sale or buyback of:	50.024.191	140.627.829
	a) loans and receivables	44.529.427	14.948.775
	b) available for sale financial assets	5.494.764	125.679.054
120.	Net banking income	353.281.869	405.175.408
130.	Net impairment losses/reversal on	(57.563.893)	(34.239.910)
	a) loans and receivables	(53.207.865)	(25.262.815)
	b) available for sale financial assets	(4.356.028)	(8.977.095)
140.	Net profit (loss) from financial activities	295.717.976	370.935.498
150.	Administrative expenses:	(176.227.357)	(126.123.433)
	a) personnel expenses	(56.188.631)	(47.737.219)
	b) other administrative expenses	(120.038.726)	(78.386.214)
160.	Net allocations to provisions for risks and charges	(2.225.192)	(229.038)
170.	Net impairment losses/Reversal on property, plant and equipment	(2.349.485)	(1.636.025)
180.	Net impairment losses/Reversal on intangible assets	(3.501.215)	(2.096.287)
190.	Other operating income/expenses	(3.343.475)	3.205.984
200.	Operating costs	(187.646.724)	(126.878.799)
250.	Pre-tax profit (loss) for the period from continuing operations	108.071.252	244.056.699
260.	Income taxes for the year relating to current operations	(36.349.322)	(83.313.446)
290.	Profit (loss) for the period	71.721.930	160.743.253

Statement of Comprehensive Income

Items (in Euro)		31.12.2016	31.12.2015
10.	Profit (loss) for the period	71.721.930	160.743.253
	Other comprehensive income, net of taxes, without reversal to income statement	(41.381)	95.417
20.	Property, plant and equipment	-	-
30.	Intangible assets	-	-
40.	Defined benefit plans	(41.381)	95.417
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	(10.722.013)	5.707.893
70.	Foreign investment hedges	-	-
80.	Exchange differences	-	-
90.	Cash flow hedges	-	-
100.	Available for sale financial assets	(10.722.013)	5.707.893
110.	Non-current assets under disposal	-	-
120.	Share of valuation reserves of equity accounted investments	-	-
130.	Total other comprehensive income, net of taxes	(10.763.394)	5.803.310
140.	Total comprehensive income (item 10+130)	60.958.536	166.546.563

Statement of Changes in 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 at 31/12/2016	
				Reserves	Dividends and other allocations	Changes in reserves	Equity transactions					Comprehensive income for the year 2016		
							Issue of new shares	Buyback of treasury shares	Extraordinary distribution of dividends	Changes in equity investments	Derivatives on treasury shares			Stock Options
Share capital:														
a) ordinary shares	53.811.095	-	53.811.095	-	-	-	-	-	-	-	-	-	-	53.811.095
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	58.899.756	-	58.899.756	-	-	36.812.793	6.062.914	-	-	-	-	-	-	101.775.463
Reserves:														
a) retained earnings	246.239.255	-	246.239.255	120.401.736	-	-	-	-	-	-	-	-	-	366.640.991
b) other	42.110.660	-	42.110.660	-	-	(36.645.784)	-	-	-	-	-	-	-	5.464.876
Valuation reserves:	11.510.521	-	11.510.521	-	-	-	-	-	-	-	-	(10.763.394)	-	747.127
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(5.805.027)	-	(5.805.027)	-	-	-	2.617.819	-	-	-	-	-	-	(3.187.208)
Profit (loss) for the period	160.743.253	-	160.743.253	(120.401.736)	(40.341.517)	-	-	-	-	-	-	-	71.721.930	71.721.930
Equity	567.509.513	-	567.509.513	-	(40.341.517)	167.009	8.680.733	-	-	-	-	-	60.958.536	596.974.274

Statement of Changes in 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 at 31/12/2015	
				Reserves	Dividends and other allocations	Changes in reserves	Equity transactions					Comprehensive income for the year 2015		
							Issue of new shares	Buyback of treasury shares	Extraordinary distribution of dividends	Changes in equity investments	Derivatives on treasury shares			Stock Options
Share capital:														
a) ordinary shares	53.811.095	-	53.811.095	-	-	-	-	-	-	-	-	-	-	53.811.095
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	57.113.239	-	57.113.239	-	-	-	1.786.517	-	-	-	-	-	-	58.899.756
Reserves:														
a) retained earnings	186.861.688	-	186.861.688	59.377.567	-	-	-	-	-	-	-	-	-	246.239.255
b) other	41.985.541	-	41.985.541	-	-	125.119	-	-	-	-	-	-	-	42.110.660
Valuation reserves:	5.707.211	-	5.707.211	-	-	-	-	-	-	-	-	5.803.310	-	11.510.521
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(6.714.508)	-	(6.714.508)	-	-	-	909.481	-	-	-	-	-	-	(5.805.027)
Profit (loss) for the period	94.396.413	-	94.396.413	(59.377.567)	(35.018.846)	-	-	-	-	-	-	160.743.253	-	160.743.253
Equity	433.160.679	-	433.160.679	-	(35.018.846)	125.119	2.695.999	-	-	-	-	166.546.563	-	567.509.513

Cash Flow Statement

Indirect method (in Euro)	31.12.2016	31.12.2015
A. OPERATING ACTIVITIES		
1. Operations	176.375.966	406.911.715
- profit(loss) for the year (+/-)	71.721.930	160.743.253
- profit/loss on financial assets held for trading and on financial assets/liabilities at fair value (-/+)	-	-
- profit/loss on hedging activities	-	-
- net impairment losses/reversal on loans (+/-)	57.563.893	34.239.910
- net impairment losses/reversal on property, plant, and equipment and intangible assets (+/-)	5.850.700	3.732.312
- net allocations to provisions for risks and charges and other expenses/income (+/-)	2.244.878	248.720
- unpaid taxes (+)	36.349.322	83.313.446
- other adjustments (+/-)	2.645.243	124.634.074
2. Cash flows generated/absorbed by financial assets	(26.933.794)	1.205.557.41
- Financial assets held for trading	(226.658)	(78.737)
- financial assets at fair value	-	-
- available for sale financial assets	2.873.422.884	1.724.235.25
- due from banks on demand	39.295.247	36.146.912
- other due from banks	(1.753.084.39)	148.834.847
- loans to customers	(1.102.965.83)	(652.725.286)
- other assets	(83.375.044)	(50.855.571)
3. Cash flows generated/absorbed by financial liabilities	25.800.810	(1.574.376.1
- due to banks on demand	60.819.855	25.159.631
- other due to banks	(190.439.373)	(1.621.126.6
- due to customers	174.898.011	4.025.788
- outstanding securities	-	-
- financial liabilities held for trading	2.160.478	337.907
- financial liabilities at fair value	-	-
- other liabilities	(21.638.161)	17.227.218
Net cash flows generated/absorbed by operating activities A (+/-)	175.242.982	38.092.997
B. INVESTING ACTIVITIES		
1. Cash flows generated by:	128.965	73.005
- sale of investments		
- dividends collected on investments		
- sale of held to maturity financial assets		
- sale of property, plant and equipment	128.965	73.005
- sale of intangible assets		
- sale of business branches		
2. Cash flows absorbed by:	(143.880.059)	(5.958.248)
- purchase of investments	(119.202.000)	-
- purchase of held to maturity financial assets	-	-
- purchase of property, plant and equipment	(14.409.908)	(3.248.200)
- purchase of intangible assets	(10.268.151)	(2.710.048)
- purchase of business branches	-	-
Net cash flows generated/absorbed by investment activities B (+/-)	(143.751.094)	(5.885.243)
C. FINANCING ACTIVITIES		
- issue/buyback of treasury shares	8.680.734	2.695.998
- issue/buyback of equity instruments	167.009	125.119
- distribution of dividends and other	(40.341.517)	(35.018.846)
Net cash flows generated/absorbed by financing activities C (+/-)	(31.493.774)	(32.197.729)
NET CASH FLOWS GENERATED /ABSORBED DURING THE YEAR D=A+/-B+/-C	(1.886)	10.025
RECONCILIATION		
OPENING CASH AND CASH EQUIVALENTS E	34.134	24.109
NET CASH FLOWS GENERATED /ABSORBED DURING THE YEAR D	(1.886)	10.025
CASH AND CASH EQUIVALENTS: EFFECTS OF CHANGES IN FOREIGN EXCHANGE		
CLOSING CASH AND CASH EQUIVALENTS G=E+/-D+/-F	32.248	34.134

Notes to the Financial Statements

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

- Part A – Accounting policies
- Part B – Statement of financial position
- Part C – Income statement
- Part D – Statement of comprehensive income
- Part E – Information on risks and risk management policies
- Part F – 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 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 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 Financial Statements are audited by EY S.p.A..

Section 2 – Basis of preparation

The financial statements consist of:

- the financial statements (statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, and statement of cash flows);
- the Notes to the 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 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 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 Banca IFIS.

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 Bank, Banca IFIS 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 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 Bank has consistently achieved, to the quality of its loans, and to its current access to financial resources.

Section 3 – Subsequent events

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

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

Section 4 – 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 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;
- 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 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*.

Banca IFIS 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 Bank's 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.

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

Concerning the new IFRS 9, during 2016 Banca IFIS 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 Bank.

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 Bank must approve the separate financial statements and publish the 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 draft separate financial statements and the consolidated financial statements on 16 March 2017; the 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 liabilities 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.

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.

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

Loans are initially recognised at the date they are granted and/or acquired at their fair value, including any transaction costs. These 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.

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.

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.

Finally, **tax receivables** are classified under performing loans, since they are due from the Public Administration.

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.

7 - Equity investments

Classification criteria

Control is obtained when the Company is exposed or has the right to receive variable returns, deriving from its relationship with the entity in which it invests and, at the same time, has the capacity to influence said returns by exercising its power over said entity.

Specifically, the Company controls a subsidiary if, and only if, it has:

- the power over the entity in which it invests (or has valid rights giving it the current capacity to manage the relevant activities of the entity in which it invests);
- exposure or the rights to variable returns deriving from the relationship with the entity in which it invests;
- the capacity to exercise its power over the entity in which it invests to influence the amount of its returns.

As a rule, it is assumed that holding the majority of voting rights entails control. In support of this assumption, and when the Company has less than the majority of voting (or similar) rights, the Bank considers all relevant facts and circumstances in order to establish whether or not it controls the entity in which it invests, including:

- Contractual agreements with other holders of voting rights;
- Rights deriving from contractual agreements;
- Voting rights and potential voting rights.

The Company reconsiders its position in terms of whether or not it controls a subsidiary if the events and circumstances suggest that there have been changes to any or all of the three elements relevant to the definition of control.

Recognition criteria

The cost of the acquisition is calculated as the sum of:

- the fair value at the acquisition date of assets given, liabilities assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree; plus
- any costs directly attributable to the acquisition.

Measurement criteria

If there is objective evidence that an equity investment may be impaired, the entity shall estimate its recoverable amount, taking into account the present value of the future cash flows that it could generate,

including from its ultimate disposal. If the recoverable amount is less than the carrying amount, the difference is recognised in profit or loss.

If the reasons for the impairment no longer exist as a result of an event that occurred after the recognition of the impairment loss, this is reversed through profit or loss.

Derecognition criteria

Equity investments are derecognised when the contractual rights to the cash flows from the assets expire or when the equity investment is sold by transferring substantially all the risks and rewards incidental to ownership.

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.

17 - 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 Bank'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 the NPL Area, 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 term¹). 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 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.

As for the receivables portfolio generated by the NPL business 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 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, Banca IFIS tests their sensitivity to changes in one or more unobservable inputs used in the fair value measurements. Specifically, a negligible amount of the financial assets measured at fair value are categorised within level 3, except for NPL Area receivables.

¹For short-term receivables, the book value is considered representative of fair value.

A.4.3. Fair value hierarchy

Concerning recurring fair value measurements of financial assets and liabilities, Banca IFIS 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	-	-	487	-	-	260
2. Financial assets at fair value	-	-	-	-	-	-
3. Available for sale financial assets	323.033	-	2.017	3.216.832	-	4.701
4. Hedging derivatives	-	-	-	-	-	-
5. Property, plant and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	323.033	-	2.504	3.216.832	-	4.961
1. Financial liabilities held for trading	-	-	2.498	-	-	338
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	-	-	2.498	-	-	338

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	260	-	4.702	-	-	-
2. Increases	487	-	1.671	-	-	-
2.1 Purchases	487	-	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. Decreases	260	-	4.356	-	-	-
3.1 Sales	-	-	-	-	-	-
3.2 Redemptions	260	-	-	-	-	-
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	487	-	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	338	-	-
2. Increases	2.498	-	-
2.1 Issues	2.498	-	-
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	338	-	-
3.1 Redemptions	338	-	-
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	2.498	-	-

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	1.798.767	-	-	1.798.767	84.988	-	-	84.988
3. Loans to customers	4.464.565	-	-	4.494.250	3.414.808	-	-	3.430.372
4. Property, plant and equipment held for investment purpose	719	-	-	926	720	-	-	926
5. Non-current assets and disposal groups	-	-	-	-	-	-	-	-
Total	6.264.051	-	-	6.293.943	3.500.516	-	-	3.516.286
1. Due to banks	533.385	-	-	533.385	663.004	-	-	663.004
2. Due to customers	5.662.176	-	-	5.682.618	5.487.213	-	-	5.491.048
3. Debt securities issued	-	-	-	-	-	-	-	-
4. Liabilities associated with non-current assets	-	-	-	-	-	-	-	-
Total	6.195.561	-	-	6.216.003	6.150.217	-	-	6.154.052

Key

BV= book value

L1= Level 1

L2= Level 2

L3= Level 3

Part B - 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	32	34
b) On demand deposits at Central banks	-	-
Total	32	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	-	-	487	-	-	260
1.1 For trading	-	-	487	-	-	260
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	-	-	487	-	-	260
Total (A+B)	-	-	487	-	-	260

Level 3 assets refer to cross currency swaps with the Polish subsidiary as well as 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	487	260
a) Banks		
- fair value	397	259
b) Customers		
- fair value	90	1
Total B	487	260
Total (A+B)	487	260

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	323.033	-	-	3.216.832	-	-
1.1 Structured	-	-	-	-	-	-
1.2 Other	323.033	-	-	3.216.832	-	-
2. Equity securities	-	-	2.017	-	-	4.701
2.1 At fair value	-	-	2.017	-	-	4.030
2.2 At cost	-	-	-	-	-	671
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
Total	323.033	-	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 and included 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 4,3 million Euro write-down of the equity interests in two investee banks 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	323.033	3.216.832
a) Governments and Central banks	323.033	3.216.832
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity securities	2.017	4.701
a) Banks	1.134	4.022
b) Other issuers:	883	679
- insurance companies	-	-
- financial companies	866	672
- non-financial companies	17	7
- other	-	-
3. UCITS units	-	-
4. Loans	-	-
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	325.050	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	1.016.569				14.446			14.446
1. Term deposits	-	X	X	X	-	X	X	X
2. Legal reserve	1.016.569	X	X	X	14.446	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Others	-	X	X	X	-	X	X	X
B. Due from banks	782.198	-	-	-	70.542	-	-	70.542
1. Loans	782.198	-	-	-	65.532	-	-	X
1.1 Current accounts and on demand deposits	26.237	X	X	X	65.532	X	X	X
1.2 Term deposits	755.961	X	X	X	-	X	X	X
1.3 Other loans:	-	X	X	X	-	X	X	X
- Reverse repurchase agreements	-	X	X	X	-	X	X	X
- Finance leases	-	X	X	X	-	X	X	X
- Other	-	X	X	X	-	X	X	X
2. Debt securities	-	-	-	-	5.010	-	-	
2.1 Structured	-	X	X	X	-	X	X	X
2.2 Other	-	X	X	X	5.010	X	X	X
Total	1.798.767	-	-	1.798.767	84.988	-	-	84.988

Key

FV= fair value

BV= book value

Lending to other banks is not part of the Bank'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	Performing	Non-performing		L1	L2	L3
Purchased		Others	Purchased					Others				
Loans	3.717.773	562.329	184.464	-	-	-	2.931.762	354.331	128.715	-	-	3.430.372
1. Current accounts	104.282	25.112	12.072	X	X	X	129.964	8.298	16.100	X	X	X
2. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
3. Loans/mortgages	410.901	3.466	947	X	X	X	6.903	2.993	-	X	X	X
4. Credit cards, personal loans and salary-backed loans	-	305.697	-	X	X	X	-	162.495	-	X	X	X
5. Finance leases	-	240	-	X	X	X	5	833	-	X	X	X
6. Factoring	2.485.720	-	163.696	X	X	X	2.474.983	-	102.389	X	X	X
7. Other loans	716.870	227.814	7.749	X	X	X	319.907	179.712	10.226	X	X	X
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
8 Structured	-	-	-	X	X	X	-	-	-	X	X	X
9 Other	-	-	-	X	X	X	-	-	-	X	X	X
Total	3.717.773	562.329	184.464	-	-	4.494.250	2.931.762	354.331	128.715	-	-	3.430.372

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 this 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).

Finally, the item included 891,0 million Euro in loans to subsidiaries that are part of the former GE Capital Interbanca Group, divided between the subline items "mortgages" and "other loans".

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:	-	-	-	-	-	-
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	3.717.773	562.329	184.464	2.931.762	354.331	128.715
a) Governments	92.844	-	11.484	104.088	-	1.041
b) Other public entities	799.904	1	42.229	895.162	1	6.580
c) Other parties	2.825.025	562.328	130.751	1.932.512	354.330	121.094
- non-financial companies	1.997.443	27.595	119.393	1.766.774	16.747	108.357
- financial companies	789.254	99	5.124	150.574	95	6.666
- insurance companies	-	-	-	-	-	-
- other	38.328	534.634	6.234	15.164	337.488	6.071
Total	3.717.773	562.329	184.464	2.931.762	354.331	128.715

Section 10 – Equity investments – Item 100**10.1 Equity investments: information on investments**

Company Name	Registered Office	Head Office	Equity %	Voting rights %
A. Subsidiaries				
1. IFIS Finance Sp. Z o.o.	Warsaw	Warsaw	100%	100%
2. Interbanca S.p.A.	Milan	Milan	99,99%	99,99%
B. Joint ventures	-	-	-	-
C. Companies under significant influence	-	-	-	-

10.5 Equity investments: annual changes

	2016	2015
A. Opening balance	26.356	26.365
B. Increases	119.202	-
B.1 Purchases	119.202	-
B.2 Reversals of impairment losses	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
C. Reductions	-	-
C.1 Sales	-	-
C.2 Impairment losses and amortisation:	-	-
C.3 Other changes	-	-
D. Closing balance	145.558	26.356
E. Total revaluations	-	-
F. Total adjustments	-	-

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.. The details of the transaction are presented in part G of the Notes to the Financial Statements.

Section 11 – Property, plant and equipment and investment property – Item 110

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

Assets/Amounts	31.12.2016	31.12.2015
1. Owned	63.275	47.507
a) Land	6.738	6.738
b) Buildings	50.662	37.899
c) Furnishings	1.217	635
d) Electronic systems	3.655	1.471
e) Others	1.003	764
2. 2.2 Acquired under finance leases	-	3.862
a) Land	-	-
b) Buildings	-	3.862
c) Furnishings	-	-
d) Electronic systems	-	-
e) Others	-	-
Total	63.275	51.369

The buildings and land recognised under property, plant and equipment for functional use at the end of the year mainly include: the important historical building Villa Marocco, located in Mestre (Venice) and housing Banca IFIS's registered office, and the property in Mestre (Venice), where some of the Bank's services were relocated.

Since these are luxury properties, they are not amortised, but are 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.

There are also two buildings in Florence: the first, worth 3,7 million Euro, was acquired under a finance lease and housed the head office of the NPL business area until August 2016; the second, measured at 20,6 million Euro—including the mentioned restructuring costs—has become the new head office of said area.

11.2 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

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

	Land	Buildings	Furnish-ings	Electronic systems	Others	To- tal:31.12.2 016
A. Gross opening balance	6.738	43.866	4.760	6.452	1.816	63.632
A.1 Total net depreciation and impairment	-	(2.105)	(4.125)	(4.981)	(1.052)	(12.263)
A.2 Net opening balance	6.738	41.761	635	1.471	764	51.369
B. Increases	-	9.373	827	3.644	566	14.410
B.1 Purchases	-	9.373	827	3.644	566	14.410
B.2 Capitalised improvement expenses	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
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	-	-	-	-	-	-
C. Reductions	-	(472)	(245)	(1.460)	(327)	(2.504)
C.1 Sales	-	-	(1)	(4)	(149)	(154)
C.2 Depreciation	-	(472)	(244)	(1.456)	(178)	(2.350)
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	-	-	-	-	-	-
D. Net closing balance	6.738	50.662	1.217	3.655	1.003	63.275
D.1 Total net depreciation and impairment	-	2.577	4.194	6.278	950	13.999
D.2 Gross closing balance	6.738	53.239	5.411	9.933	1.953	77.274
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, the purchases referred largely to the capitalisation of the costs for restructuring the property in Florence that houses the new headquarters of NPL business area.

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

11.6 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 12 – Intangible assets – Item 120

12.1 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	-	X	-
A.1.2 Non-controlling interests	X	-	X	-
A.2 Other intangible assets	13.117	-	6.350	-
A.2.1 Assets measured at cost:	13.117	-	6.350	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	13.117	-	6.350	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	13.117	-	6.350	-

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.

12.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total 31.12.2016
		FINITE	INDEF	FINITE	INDEF	
A. Opening balance	-	-	-	6.350	-	6.350
A.1 Total net depreciation and impairment losses	-	-	-	-	-	-
A.2 Net opening balance	-	-	-	6.350	-	6.350
B. Increases	-	-	-	10.268	-	10.268
B.1 Purchases	-	-	-	10.268	-	10.268
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	-	-	-	3.501	-	3.501
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses and amortisation:	-	-	-	3.501	-	3.501
- Amortisation expense	X	-	-	3.501	-	3.501
- 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	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	-	-	-	13.117	-	13.117
D.1 Total net amortisation, impairment losses and reversals of impairment losses	-	-	-	-	-	-
E. Gross closing balance	-	-	-	13.117	-	13.117
F. Measurement at cost	-	-	-	-	-	-

Key

Fin: finite useful life

Indef: indefinite useful life

Purchases refer exclusively to investments for the enhancement of IT systems.

Section 13 – Tax assets and liabilities – Item 130 of assets and 80 of liabilities**13.1 Deferred tax assets: breakdown**

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

Deferred tax assets	31.12.2016	31.12.2015
Loans to customers	36.184	38.058
Provisions for risks and charges	1.209	-
Available for sale securities	0	-
Property, plant and equipment	315	-
Others	575	1.181
Total	38.283	39.239

Deferred tax assets associated with Loans to customers referred to value adjustments on receivables that can be deducted in the following years.

13.2 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
Available for sale securities	394	5.770
Property, plant and equipment	325	309
Others	309	
Total	14.320	21.336

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

	31.12.2016	31.12.2015
1. Opening balance	39.176	38.298
2. Increases	30	2.073
2.1 Deferred tax assets recognised in the year	30	2.073
a) relative to previous years	30	-
b) due to change in accounting standards	-	-
c) reversals of impairment losses	-	-
d) other	-	2.073
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	1.002	1.195
3.1 Deferred tax assets reversed during the year	1.002	738
a) reversals	1.002	738
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	38.204	39.176

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

	31.12.2016	31.12.2015
1. Opening balance	15.583	11.432
2. Increases	-	4.514
2.1 Deferred tax liabilities recognised in the year	-	4.514
a) relative to previous years	-	-
b) due to change in accounting standards	-	-
c) other	-	4.514
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	1.658	363
3.1 Deferred tax liabilities reversed during the year	370	16
a) reversals	370	16
b) due to change in accounting standards	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	1288	347
4. Closing balance	13.925	15.583

13.5 Changes in deferred tax assets (recognised through equity)

	31.12.2016	31.12.2015
1. Opening balance	63	-
2. Increases	16	63
2.1 Deferred tax assets recognised in the year	16	63
a) relative to previous years	-	-
b) due to change in accounting standards	-	-
c) other	16	63
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	0	-
3.1 Deferred tax assets reversed during the year	-	-
a) reversals	-	-
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	79	63

13.6 Changes in deferred tax liabilities (recognised through equity)

	31.12.2016	31.12.2015
1. Opening balance	5.753	2.836
2. Increases	17	2.948
2.1 Deferred tax liabilities recognised in the year	17	2.948
a) relative to previous years	17	-
b) due to change in accounting standards	-	-
c) other	-	2.948
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	5.376	31
3.1 Deferred tax liabilities reversed during the year	5.376	15
a) reversals	5.376	15
b) due to change in accounting standards	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other reductions	-	16
4. Closing balance	394	5.753

Section 15 - Other assets – Item 150**15.1 Other assets: breakdown**

	31.12.2016	31.12.2015
Prepayments and accrued income	28.532	19.862
Receivables due from tax authorities	7.249	18.055
Guarantee deposits	477	7.842
Securitisation transactions	120	301
Other items	120.392	36.217
Total	156.770	82.277

Prepayments and accrued income included 18,7 million Euro in prepayments related to the NPL area's debt collection costs, 4,5 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.

Tax receivables refer for 6,8 million Euro to payments on account for the virtual stamp duty.

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/Amounts	31.12.2016	31.12.2015
1. Due to Central banks	1.171	119.792
2. Due to banks	532.214	543.212
2.1 Current accounts and on demand deposits	84.909	25.260
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	533.385	663.004
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	533.385	663.004
Total fair value	533.385	663.004

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/Amounts	31.12.2016	31.12.2015
1. Current accounts and on demand deposits	884.433	748.302
2. Term deposits	3.722.912	2.447.604
3. Loans	1.049.163	2.282.889
3.1 repurchase agreements	270.314	2.278.983
3.2 other	778.849	3.906
4. Debt from buyback commitments on treasury equity instruments	-	-
5. Other payables	5.668	8.418
Total	5.662.176	5.487.213
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	5.682.618	5.491.048
Total fair value	5.682.618	5.491.048

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 represent 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 Bank does not carry out "term structured repo" transactions.

Other loans refer mainly to the funding derived from the securitisation launched in October 2016 (see Part E of these Notes) and 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 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	3.768	3.906

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 company's registered office and is now the headquarters of the NPL area. 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.

On 13 May 2014, Bank IFIS sold this finance lease agreement to a newco, a special purpose vehicle set up exclusively to manage said property and owned by a real estate company not related to Banca IFIS. 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.

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	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial derivatives	-	-	-	2.498	-	-	-	-	338	-
1.1 Held for trading	X	-	-	2.498	X	X	-	-	338	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	-	-	-	2.498	-	-	-	-	338	-
Total (A+B)	X	-	-	2.498	X	X	-	-	338	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

Level 3 Liabilities refer to cross currency swaps with the Polish subsidiary as well as 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	29.249	12.241
Sums available to customers	13.375	9.077
Due to the Tax Office and Social Security agencies	10.090	4.803
Due to personnel	6.025	5.073
Accrued expenses and deferred income	3.587	4.329
Other payables	160.320	167.609
Total	222.646	203.132

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 160 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 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	77	20
B.1 Allocations for the year	20	20
B.2 Other changes	57	-
C. Reductions	23	185
C.1 Payments made	20	150
C.2 Other changes	3	35
D. Closing balance	1.507	1.453
Total	1.507	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	4.331	2.171
2.1 legal disputes	1.855	1.513
2.2 personnel expenses:	-	-
2.3 other	2.476	658
Total	4.331	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	-	3.284
B.1 Provisions for the year	-	3.284
B.2 Changes due to the passage of time	-	-
B.3 Differences due to discount-rate changes	-	-
B.4 Other changes	-	-
C. Reductions	-	1.124
C.1 Used during the year	-	65
C.2 Differences due to discount-rate changes	-	-
C.3 Other changes	-	1.059
D. Closing balance	-	4.331

12.4 Provisions for risks and charges – Other provisions*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 segment.

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

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.

Contingent liabilities*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, 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.

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.

Section 14 – Equity attributable to owners of the company – Items 130, 150, 160, 170, 180, 190 and 200

14.1 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

14.2 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	-	-

14.3 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.

14.4 Profit reserves: other information

Items/Components	31.12.2016	31.12.2015
Legal reserve	10.762	10.762
Extraordinary reserve	357.954	237.553
Other reserves	(2.075)	(2.076)
Total income-related reserves	366.641	246.239
Buyback reserve	3.187	5.805
Future buyback reserve	-	34.195
Other reserves	2.278	2.111
Total item 160 reserves	372.106	288.350

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	201.277	174.646
a) Banks	-	-
b) Customers	201.277	174.646
2) Commercial guarantees	-	-
a) Banks	-	-
b) Customers	-	-
3) Irrevocable commitment to grant funds	35.756	44.506
a) Banks	-	3.674
i) certain use	-	3.674
ii) uncertain use	-	-
b) Customers	35.756	40.832
i) certain use	6.415	13.766
ii) uncertain use	29.341	27.066
4) Commitments underlying credit derivatives: sale of protection	-	-
5) Assets used as collateral by third parties	-	-
6) Other commitments	223.017	91.296
Total	460.050	310.448

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.

Part C - 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	Available for sale financial assets	11.083	-	-	11.083	43.991
3	Held to maturity financial assets	-	-	-	-	22.110
4	Due from banks	-	1.188	480	1.668	303
5	Loans to customers	-	84.713	211.152	295.865	182.483
6	Financial assets at fair value	-	-	-	-	-
7	Hedging derivatives	X	X	-	-	-
8	Other assets	X	X	93	93	115
	Total	11.083	85.901	211.725	308.709	249.002

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 decrease in that portfolio.

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	8.303	931

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	-	X	(1.879)	(1.879)	(303)
2	Due to banks	(1.238)	X	-	(1.238)	(324)
3	Due to customers	(50.124)	X	(2.172)	(52.296)	(40.928)
4	Outstanding securities	X	-	-	-	-
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	(53.534)	-	(2.199)	(55.733)	(41.575)

Interest expense on payables due to customers related to the “payables” category at 31 December 2016 referred for 49,8 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.

Interest expense on payables due to customers related to “other transactions” referred to the funding costs for the securitisation carried out in late 2016, as detailed in Part E of these Notes.

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	(289)	(181)

1.6.2 Interest expense on liabilities for finance leases

	31.12.2016	31.12.2015
Interest expense on liabilities for finance leases	(60)	(133)

Section 2 – Commissions - Items 40 and 50**2.1 Commission income: breakdown**

Service type/Amounts	31.12.2016	31.12.2015
a) guarantees granted	2	102
b) derivatives on loans	-	-
c) management, brokerage and consultancy services:	359	-
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	-	-
8.2 on financial structure	-	-
9. third-party services	-	-
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. Other products	-	-
d) collection and payment services	987	2.101
e) servicing for securitisation transactions	-	-
f) services for factoring transactions	51.939	56.526
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	1.837	1.633
Total	56.253	61.482

2.3 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:	(92)	(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	(92)	(75)
5. placement of financial instruments	-	-
6 off-site offer of financial instruments, services and products	-	-
d) collection and payment services	(2.939)	(2.480)
e) other services	(2.230)	(1.618)
Total	(5.463)	(4.356)

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	(509)
4. Derivative instruments	-	-	-	-	-
4.1 Financial derivatives:	-	-	-	-	-
- On debt securities and interest rates	-	-	-	-	-
- On equity instruments and share indexes	-	-	-	-	-
- On currencies and gold	X	X	X	X	-
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	-	-	-	-	(509)

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	(3.148)	5.495	126.384	(705)	125.679
3.1 Debt securities	8.643	(3.148)	5.495	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	(3.428)	50.024	141.332	(705)	140.627
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-

Profits from the disposal of loans to customers were achieved by selling receivables portfolios of the NPL Area.

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	(36.206)	(34.261)	-	2.145	13.015	-	2.099	(53.208)	(25.263)
Acquired non-performing loans	(34.158)	(191)	-	-	-	-	-	(34.349)	(3.613)
- loans	(34.158)	(191)	X	-	-	X	X	(34.349)	(3.613)
- debt securities	-	-	X	-	-	X	X	-	-
Other receivables	(2.048)	(34.070)	-	2.145	13.015	-	2.099	(18.859)	(21.650)
- loans	(2.048)	(34.070)	-	2.145	13.015	-	2.099	(18.859)	(21.650)
- debt securities	-	-	-	-	-	-	-	-	-
C. Total	(36.206)	(34.261)	-	2.145	13.015	-	2.099	(53.208)	(25.263)

Key

A= from interest

B= other reversals

Net impairment losses on receivables referred for 20,3 million Euro to Trade Receivables and 32,6 million Euro to the NPL Area. As for the latter, 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.

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.

Section 9 – Administrative expenses - Item 150**9.1 Personnel expenses: breakdown**

Type of expense/Sectors	31.12.2016	31.12.2015
1) Employees	(52.224)	(44.051)
a) salaries and wages	(38.710)	(32.091)
b) social security contributions	(10.587)	(9.142)
c) post-employment benefits	(1.997)	(1.680)
d) pension expense	-	-
e) allocations for post-employment benefits	(20)	(20)
f) allocations to pensions and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments made to supplementary external funds:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
h) costs arising from share-based payment agreements	-	-
i) other employee benefits	(910)	(1.118)
2) Other serving employees	(120)	(120)
3) Directors and Statutory Auditors	(3.948)	(3.566)
4) Retired personnel	-	-
5) Recovery of expenses for seconded personnel	103	-
6) Reimbursements of expenses for seconded parties working in the bank	-	-
Total	(56.189)	(47.737)

Personnel expenses were up 17,7% as a result of the increase in the number of employees, rising from 711 at the end of 2015 to 832 at the end of 2016 (+17%). The increase is consistent with the goal to strengthen some areas and services supporting the business—especially in the NPL Area—and the scenario in which the Bank operates.

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.

Other employee benefits included costs sustained for training and refresher courses.

11.2 Average number of employees by category

Employees:	31.12.2016	31.12.2015
Employees:	771,5	657,5
(a) senior managers	27,5	24,0
(b) middle managers	171,0	51,5
(c) remaining personnel	573,0	582,0
Other personnel	-	-

11.5 Other administrative expenses: breakdown

Type of expense/Amounts	31.12.2016	31.12.2015
Expenses for professional services	(54.777)	(30.895)
Legal and consulting services	(23.773)	(13.823)
Auditing	(234)	(204)
Outsourced services	(30.770)	(16.868)
Direct and indirect taxes	(14.339)	(8.722)
Expenses for purchasing goods and other services	(50.923)	(38.769)
Customer information	(11.282)	(6.793)
Postage of documents	(5.203)	(3.621)
Software assistance and hire	(4.790)	(3.267)
Property expenses	(4.284)	(4.442)
Advertising and inserts	(3.671)	(2.145)
Car fleet management and maintenance	(2.275)	(2.194)
Telephone and data transmission expenses	(1.834)	(1.433)
Employee travel	(1.611)	(1.114)
Other sundry expenses	(15.973)	(13.760)
Total administrative expenses	(120.039)	(78.386)

Other administrative expenses were up 53,1% 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.

Section 10 – Net allocations to provisions for risks and charges – Item 160**10.1. 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	(343)	(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	(2.225)	(229)

Provisions for legal disputes refer for 275 thousand Euro to Trade Receivables and 68 thousand Euro to the NPL Area. 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 11 – Net impairment losses/reversals on property, plant and equipment – Item 170**11.1. 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	(2.350)	-	-	(2.350)
- for functional use	(2.350)	-	-	(2.350)
- for investment purposes	-	-	-	-
A.2 Acquired under finance leases	-	-	-	-
- for functional use	-	-	-	-
- for investment purposes	-	-	-	-
Total	(2.350)	-	-	(2.350)

Section 12 – Net impairment losses/reversals on intangible assets - Item 180**12.1 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	(3.501)	-	-	(3.501)
- Internally generated	-	-	-	-
- Other	(3.501)	-	-	(3.501)
A.2 Acquired under finance leases	-	-	-	-
Total	(3.501)	-	-	(3.501)

Section 13 – Other operating income (expenses) - Item 190**13.1 Other operating expenses: breakdown**

Type of expense/Amounts	31.12.2016	31.12.2015
a) Transactions with customers	(3.616)	(14)
c) Other expenses	(3.079)	(264)
Total	(6.695)	(278)

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.

13.2 Other operating income: breakdown

Type of expense/Amounts	31.12.2016	31.12.2015
a) Recovery of third party expenses	2.348	2.999
b) Receivable rental fees	48	64
c) Other income	956	421
Total	3.352	3.484

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 18 - Income taxes for the year relating to current operations - Item 260**18.1 Income taxes for the year relating to current operations: breakdown**

Income components/Sectors		31.12.2016	31.12.2015
1.	Current tax expense (-)	(34.810)	(79.798)
2.	Changes in current taxes of previous years (+/-)	(2.227)	(242)
3.	Reductions in current taxes for the year (+)	-	-
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 (+/-)	(972)	878
5.	Changes in deferred tax liabilities (+/-)	1.660	(4.151)
6.	Tax expense for the year (-) (-1+/-2+3+3 bis+/-4+/-5)	(36.349)	(83.313)

18.2 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	108.071
Corporate tax (IRES) – theoretical tax charge (27,5%)	(29.720)
- effect of non-taxable income and other reductions - permanent	4.824
- 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	77
Corporate tax – Effective tax charges	(28.359)
Regional tax on productive activities (IRAP) – theoretical tax charges (5,57%)	(6.020)
- effect of income/charges that are not part of the taxable base	(1.980)
- 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	(7.990)
Other taxes	-
Effective tax charges for the year	(36.349)

Section 20 – 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 financial statements.

Section 21 – Earnings per share**21.1 Average number of ordinary diluted shares**

Earnings per share and diluted earnings per share	31.12.2016	31.12.2015
Profit for the period (in thousands of Euro)	71.722	160.743
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
Earnings per share (Units of Euro)	1,35	3,03
Diluted earnings per share (Units of Euro)	1,35	3,03

Potentially dilutive shares refer to share-based payments for upfront variable pay, as described in Part I of these Notes.

Part D - Statement of comprehensive income

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	71.722
	Other comprehensive income, net of taxes, without reversal to income statement	(57)	(16)	(41)
20	Property, plant and equipment	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	(57)	(16)	(41)
50.	Non-current assets under disposal	-	-	-
60.	Share of valuation reserve of equity accounted investments	-	-	-
	Other comprehensive income, net of taxes, with reversal to income statement	(16.095)	(5.373)	(10.722)
70.	Foreign investment hedges:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
80.	Exchange rate differences:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
90.	Cash flow hedges:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
100.	Available for sale financial assets:	(16.095)	(5.373)	(10.722)
	a) fair value gains (losses)	(11.070)	(3.711)	(7.359)
	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	(16.152)	(5.389)	(10.763)
140	Total comprehensive income (item 10+130)	(16.152)	(5.389)	60.959

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 Bank 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 bank 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 the Bank prepared the first ILAAP (Internal Liquidity Adequacy Assessment Process) report, which includes:

- an analysis of the liquidity risk (intraday, short-term, and medium/long-term) the Group is exposed to;
- an assessment of whether the Bank has sufficient resources to manage these risks, such as available liquidity reserves, the Group's funding structure, and the liquidity risk governance and management processes;
- a description of the main steps taken during the self-assessment cycle and the identification of areas for improvements, based on an assessment of the Bank's processes and policies for managing liquidity risk and accounting for the evolution in the reference regulatory framework.

In May 2016, 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 manage 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 - Banca IFIS 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 Bank's financial solidity. 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 Bank.

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 defence 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 - Credit risk

Qualitative information

General aspects.

The Bank currently operates in the following fields:

- Short-term trade receivable financing and acquisition of receivables due from the Public Administration (factoring 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 Interbanca GE Capital SpA and its subsidiaries, expanding its core business to corporate lending, structured finance, and finance and operating leases.

The factoring business is characterised by the direct assumption of risks related to granting advances and loans, as well as guarantees, if any, in favour of mainly small- and medium-sized enterprises, according to the growth strategies defined and pursued by the Bank. The portfolio of short-term trade receivable financing solutions includes also purchasing and managing receivables due from public health authorities and local administrations.

Traditional factoring operations are complemented with the business of acquiring distressed financial (Distressed Retail Loans, that is non-performing loans), trade and tax receivables. The sellers are typically banks, financial institutions, insolvency proceedings and businesses.

Loans to support the trade receivables of pharmacies represent a marginal proportion of the total.

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 Banca IFIS,

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 13 months, and the maximum duration per individual asset was 40 months.

Banca IFIS does not carry out any operation involving credit derivatives.

Credit risk management policies.

Organisational aspects

Credit risks in factoring operations directly arise from financing the business customers and guaranteeing them, when requested, against the account debtor's 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 seller/debtor counterparties. 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 the first phase of the risk management process, the responsible organisational structure shall assess the creditworthiness of the seller and debtor counterparties, the nature of the commercial relationship between them, and the quality of the receivables factored. 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 and Business Unit managers. As for higher amounts, powers are attributed solely to the Credit Committee, the General Manager, the Chief Executive Officer, and the Board of Directors.

The Bank'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 Head Office.

Qualified and specialised staff follow all stages of a relationship: from the sale of the receivables to the granting of advances, 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, also with support from the Troubled Loans Area, and specifically Disputes.

As already specified, Banca IFIS 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), Banca IFIS 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.

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 Bank, even if amounting to less than 10% of regulatory capital, are systematically monitored.

Management, measurement and control systems

The operational procedure governing Banca IFIS's credit process as part of factoring operations expressly requires assessing all counterparties involved in the factoring relationship, both on the assignor side and on the assigned debtor side.

Within factoring operations, credit risk is constantly monitored by means of procedures and instruments allowing to rapidly identify particular anomalies.

The Bank has instruments and procedures in place allowing to evaluate and monitor risks. Specifically:

- it assesses the creditworthiness;
- it immediately identifies the risk in each individual cash advance or financing transaction;
- it defines adequate pricing for each class of risk right from the initial commercial analysis of the feasibility of the operation.

Following a positive assessment and after starting to work with the customer, the bank continues to monitor the relevant credit risk using selected databases.

Protests, prejudicial events or signs of loans turning bad automatically lead to the suspension of operations. The ensuing analysis aims to assess the seriousness of the anomalies and whether the problems are permanent or temporary, so as to decide whether to maintain the relationship or reduce the exposures.

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 also 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, please note that it is made up mainly of Italian government bonds. 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, the Bank 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 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 operations concerning distressed loans (Distressed Retail Loans 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, also 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.

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 Area, 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

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	-	-	-	-	323.033	323.033
2. Held to maturity financial assets	-	-	-	-	-	-
3. Due from banks	-	-	-	-	1.798.767	1.798.767
4. Loans to customers	352.308	292.600	101.885	303.751	3.414.022	4.464.566
5. Financial assets at fair value	-	-	-	-	-	-
6. Financial assets under disposal	-	-	-	-	-	-
Total 31.12.2016	352.308	292.600	101.885	303.751	5.535.822	6.586.366
Total 31.12.2015	190.286	234.546	58.214	879.509	5.354.073	6.716.628

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	-	-	-	323.033	-	323.033	323.033
2. Held to maturity financial assets	-	-	-	-	-	-	-
3. Due from banks	-	-	-	1.798.767	-	1.798.767	1.798.767
4. Loans to customers	1.015.211	268.418	746.793	3.727.128	9.355	3.717.773	4.464.565
5. Financial assets at fair value	-	-	-	X	X	-	-
6. Financial assets under disposal	-	-	-	-	-	-	-
Total 31.12.2016	1.015.211	268.418	746.793	5.848.928	9.355	5.839.573	6.586.365
Total 31.12.2015	727.621	244.575	483.046	6.244.978	11.396	6.233.582	6.716.628

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.

<i>(in thousands of Euro)</i>	31.12.2016	31.12.2015
Past due up to 3 months	104.091	385.852
Past due > 3 months < 6 months	32.365	157.911
Past due > 6 months < 1 year	45.489	112.564
Past due > 1 year	121.805	224.391
Total	303.750	880.718

A.1.3 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 adjust- ments	Portfolio value adjust- ments	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 EX- POSURES								
a) Bad loans	-	-	-	-	X	-	X	-
- of which: forborne expo- sures	-	-	-	-	X	-	X	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
- of which: forborne expo- sures	-	-	-	-	X	-	X	-
) Non-performing past due ex- posures	-	-	-	-	X	-	X	-
- of which: forborne expo- sures	-	-	-	-	X	-	X	-
d) Performing past due expo- sures	X	X	X	X	-	X	-	-
- of which: forborne expo- sures	X	X	X	X	-	X	-	-
e) Other performing exposures	-	X	X	-	1.798.767	X		1.798.767
- of which: forborne expo- sures	X	X	X	X		X		-
Total A	-	-	-	-	1.798.767	-	-	1.798.767
B. OFF-BALANCE-SHEET EX- POSURES								
a) Non-performing	-	-	-	-	X		X	-
b) Performing	-	X	X	-	50.000	X		50.000
Total B	-	-	-	-	50.000	-	-	50.000
TOTAL A+B	-	-	-	-	1.848.767	-	-	1.848.767

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 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 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	167.480	1	9	426.187	X	241.368	X	352.309
- of which: forbome exposures	11.777	-	-	33.550	X	9.338	X	35.989
b) Unlikely to pay	37.591	1.790	12.782	266.160	X	25.724	X	292.599
- of which: forbome exposures	21.438	-	842	58.900	X	8.500	X	72.680
) Non-performing past due exposures	92.500	7.003	2.435	1.273	X	1.326	X	101.885
- of which: forbome exposures	-	-	-	-	X	-	X	-
d) Performing past due exposures	X	X	X	-	304.112	X	361	303.751
- of which: forbome exposures	X	X	X	-	-	X	-	-
e) Other performing exposures	X	X	X	-	3.746.048	X	8.994	3.737.054
- of which: forbome exposures	X	X	X	-	7.005	X	35	6.956
Total A	297.571	8.794	15.226	693.620	4.050.160	268.418	9.355	4.787.598
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing	2.003	-	-	-	X	-	X	2.003
b) Performing	X	X	X	X	408.046	X	-	408.046
Total B	2.003	-	-	-	408.046	-	-	410.049
TOTAL A+B	299.574	8.794	15.226	693.620	4.458.206	268.418	9.355	5.197.647

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 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	414.581	253.252	59.788
- of which: transferred and not derecognised	-	-	-
B. Increases	373.925	336.413	519.044
B.1 inflows from performing loans	554	33.882	448.609
B.2 transfers from other non-performing loan categories	57.588	37.649	-
B.3 other increases	315.783	264.882	70.435
C. Reductions	194.829	271.342	475.621
C.1 outflows to performing loans	66	638	294.302
C.3 derecognitions	12.629	19.147	-
C.3 collections	60.155	95.034	105.442
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	55.001	39.004
C.5 other reductions	99.692	92.485	36.873
D. Closing gross exposure	593.677	318.323	103.211
- of which: transferred and not derecognised	-	-	-

Total **net non-performing exposures** amounted to 746,8 million Euro, compared to 483,0 million Euro at the end of 2015 (+54,6%), with significant increases across all categories.

Total **bad loans** to customers at 31 December 2016, net of value adjustments, totalled 352,37 million Euro, against 190,3 million Euro at 31 December 2015 (+85,1%). The change was essentially due to the purchases made by the NPL Area during the year. The bad loans of the Trade Receivables segment were up 2,4%.

In December 2016, **unlikely to pay** totalled 292,6 million Euro, compared to 234,5 million Euro in 2015 (+24,8%), including 241,5 million Euro related to the NPL Area (+23,9 million Euro from the end of 2015). The Trade Receivables segment's unlikely to pay were up 28,7%.

Net non-performing past due exposures totalled 101,9 million Euro at 31 December 2016, compared with 58,2 million Euro in December 2014 (+75,0%). The increase was 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 a normal part of the Bank's business model.

A.1.7bis 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	150.628	14.199
B.1 inflows from non-forborne performing exposures	3.079	89
B.2 inflows from forborne performing exposures	-	-
B.3 inflows from non-performing forborne exposure	-	321
B.4 other increases	147.549	13.789
C. Reductions	85.015	10.171
B.1 outflows to non-forborne performing exposures	-	-
B.2 outflows to forborne performing exposures	321	-
B.3 outflows to non-performing forborne exposure	-	-
C.4 derecognitions	-	-
C.5 collections	43.704	9.834
C.6 collections from sales	10.456	-
C.7 losses on disposal	-	-
C.8 other reductions	30.534	337
D. Closing gross exposure	126.506	7.005
- of which: transferred and not derecognised	-	-

A.1.8 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	224.295	885	18.706	5.406	1.574	144
- of which: transferred and not de-recognised	-	-	-	-	-	-
B. Increases	26.244	8.483	22.023	5.819	-	-
B.1 Impairment losses	17.717	5.879	21.276	5.613	-	-
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other non-performing loan categories	8.527	2.604	747	144	-	-
B.4 other increases	-	-	-	62	-	-
C. Reductions	9.171	30	15.005	2.725	248	144
C.1 impairment reversals from measurement	2.376	-	3.572	-	248	-
C.2 impairment reversals from collection	-	-	-	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 derecognitions	6.048	-	2.906	-	-	-
C.5 transfers to other non-performing loan categories	747	-	8.527	2.604	-	144
C.6 other reductions	-	30	-	121	-	-
D. Closing balance of total impairment losses/ reversals of impairment losses	241.368	9.338	25.724	8.500	1.326	-
- of which: transferred and not de-recognised	-	-	-	-	-	-

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, Banca IFIS uses the external credit assessment institution (ECAI) Fitch Ratings exclusively for the positions recognised under “Exposures to Central Governments and Central Banks”; no external ratings are used for the other asset classes. In light of the composition of the Bank’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 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.

A.3 Distribution of guaranteed exposures by guarantee type

A.3.2 Guaranteed exposures to customers

	Net exposure	Collateral guarantees (1)				Personal guarantees (2)									Total (1)+(2)
		Property Mortgages	Property Finance Leases	Securities	Other collateral guarantees	CLN	Credit derivatives				Unsecured loans				
							Other derivatives				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:	284.005	11.000	-	-	-	-	-	-	-	-	-	-	-	255.220	266.220
1.1 totally guaranteed	225.469	9.642	-	-	-	-	-	-	-	-	-	-	-	215.828	225.470
- of which non-performing	46.881	9.322	-	-	-	-	-	-	-	-	-	-	-	37.559	46.881
1.2 partially guaranteed	58.536	1.358	-	-	-	-	-	-	-	-	-	-	-	39.392	40.750
- of which non-performing	2.928	1.358	-	-	-	-	-	-	-	-	-	-	-	1.221	2.579
2. Guaranteed off-balance-sheet exposures:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 totally guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. Concentration and distribution of exposures

B.1 Breakdown of on- and off-balance sheet exposures to customers by category (carrying amounts)

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	1.039	5.322	X	-	-	X	47.419	223.808	X	300.156	10.076	X
- of which forborne exposures			X			X	951	5.322	X			X	2.274	4.016	X	32.764		X
A.2 Unlikely to pay	332	146	X	2.862	627	X	4.183	4.647	X	-	-	X	47.572	19.807	X	237.650	497	X
- of which forborne exposures			X	2.161	621	X	1.292	2.487	X			X	16.459	5.392	X	52.768		X
A.3 Non-performing past due exposures	11.152	3	X	35.674	10	X	-	-	X	-	-	X	51.999	1.241	X	3.060	72	X
- of which forborne exposures			X			X			X			X			X			X
A.4 Performing exposures	415.877	X	2	799.904	X	108	789.253	X	25	-	X	-	1.997.444	X	9.064	38.328	X	156
- of which forborne exposures													6.970		35			
Total A	427.361	149	2	842.135	2.799	108	794.475	9.969	25	-	-	-	2.144.434	244.856	9.064	579.194	10.645	156
B. Off-balance-sheet exposures																		
B.1 Bad loans	-	-	X	-	-	X	201	-	X	-	-	X	-	-	X	-	-	X
B.2 Unlikely to pay	-	-	X	-	-	X	-	-	X	-	-	X	550	-	X	-	-	X
B.3 Other non-performing exposures	-	-	X	-	-	X	-	-	X	-	-	X	1.252	-	X	-	-	X
A.4 Performing exposures	-	X	-	589	X	-	84.238	X	-	56	X	-	322.835	X	-	328	X	-
Total B	-	-	-	589	-	-	84.439	-	-	56	-	-	324.637	-	-	328	-	-
Total (A+B) 31.12.2016	427.361	149	2	842.724	3.420	108	878.914	17.778	25	56	-	-	2.463.771	254.264	9.064	579.522	10.645	156
Total (A+B) 31.12.2015	3.321.961	84	32	902.332	2.506	761	172.859	7.660	47	1	-	-	2.182.217	230.699	10.459	359.044	9.917	97

B.2 Geographical breakdown of on- and off-balance sheet exposures to customers (carrying amounts)

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	351.460	238.253	830	3.110	10	5	2	-	7	-
A.2 Unlikely to pay	292.458	25.719	133	5	1	-	-	-	7	-
A.3 Non-performing past due exposures	101.885	1.326	-	-	-	-	-	-	-	-
A.4 Performing exposures	3.877.850	8.712	148.153	516	268	1	13.889	123	646	3
Total A	4.623.653	274.010	149.116	3.631	279	6	13.891	123	660	3
B. Off-balance-sheet exposures										
B.1 Bad loans	201	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	550	-	-	-	-	-	-	-	-	-
B.3 Other non-performing exposures	1.252	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	330.541	-	76.647	-	18	-	787	-	53	-
Total B	332.544	-	76.647	-	18	-	787	-	53	-
Total (A+B) 31.12.2016	4.956.197	274.010	225.763	3.631	297	6	14.678	123	713	3
Total (A+B) 31.12.2015	6.793.728	250.609	137.243	5.319	795	10	5.958	30	690	3

B.3 Geographical breakdown of cash and off-balance sheet exposures to banks (carrying amounts)

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	1.798.295	-	130	-	342	-	-	-	-	-
Total A	1.798.295	-	130	-	342	-	-	-	-	-
B. Off-balance-sheet exposures										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other non-performing expo-	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	50.000	-	-	-	-	-	-	-	-	-
Total B	50.000	-	-	-	-	-	-	-	-	-
Total (A+B) 31.12.2016	1.848.295	-	130	-	342	-	-	-	-	-
Total (A+B) 31.12.2015	85.063	-	2.981	-	619	-	-	-	-	-

B.4 Major exposures

		31.12.2016	31.12.2015
a)	Book value	3.599.257	3.579.498
b)	Weighted amount	279.448	163.106
c)	Number	11	6

The overall weighted amount of major exposures at 31 December 2016 consisted of 217,7 million Euro in loans to customers, 25,6 million Euro in receivables due from banks, and 36,1 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 323,0 million Euro, and consisted entirely of Italian government bonds; these securities, with a par value of 320 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 thirteen 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 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 946,5 million Euro, with 104,3 million Euro due from the “central government” (of which 75 million Euro relating to tax receivables) and 842,2 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 1,2 million Euro (0,8 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.

Quantitative information

C.1. 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	-	-	-	-	35.558	-	-	-	-	-	-	-	-	-	-	-	-	-
- loans to customers	-	-	-	-	35.558	-	-	-	-	-	-	-	-	-	-	-	-	-

C.3 Special purpose vehicle 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	-	-

E. Sales

A. Financial assets sold and not fully derecognised

Qualitative information

Financial assets sold but not derecognised refer to 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	-	-	-	-	-	-	-	-	81.049	-	-	404.082	2.667.606
1. Debt securities	-	-	-	-	-	-	323.033	-	-	-	-	-	-	-	-	-	-	-	323.033	2.667.606
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	81.049	-	-	81.049	-
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total 31.12.2016	-	-	-	-	-	-	323.033	-	-	-	-	-	-	-	-	81.049	-	-	404.082	X
<i>of which non-performing</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.039	-	-	1.039	X
Total 31.12.2015	-	-	-	-	-	-	2.667.606	-	-	-	-	-	-	-	-	-	-	-	X	2.667.606
<i>of which non-performing</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X	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)

E.2 Financial liabilities for financial assets sold and not derecognised: book value

Liabilities/Assets	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
1. Due to customers	-	-	270.314	-	-	46.295	316.609
a) for fully recognised assets	-	-	270.314	-	-	46.295	316.609
a) for partly recognised assets	-	-	-	-	-	-	-
2. Due to banks	-	-	50.886	-	-	-	50.886
a) for fully recognised assets	-	-	50.886	-	-	-	50.886
a) for partly recognised assets	-	-	-	-	-	-	-
Total 31.12.2016	-	-	321.200	-	-	46.295	367.495
Total 31.12.2015	-	-	-	-	-	-	-

Section 2 - Market risks

Generally, as Banca IFIS does not usually trade in financial instruments, its financial risk profile refers mainly to the banking book.

At the end of the second half of 2016, the Bank recognised currency swaps with a mark-to-market value positive to the tune of 487 thousand Euro and negative to the tune of 2.498 thousand Euro. The classification of these derivatives under financial assets and liabilities held for trading does not reflect the aim of the transaction, which is to mitigate the impact of potential movements in the reference exchange rates.

2.1 Interest rate risk and price risk – supervisory trading book

Qualitative information

Banca IFIS does not usually trade in financial instruments.

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

In general, the Bank does not assume significant interest rate risks, as it obtains funds mainly from retail customers through the rendimax and contomax current accounts as well as interbank deposits (either collateralised or not). 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 a securitisation programme in the year just ended. Loans to customers are usually revocable and at floating rate. Interest rates applied to traditional customers for factoring relationships are normally indexed (mainly at the 3-month Euribor rate) with automatic adjustment to the trend in the cost of money. In some cases, the interest rates are not indexed, but they can be unilaterally changed by the Bank without prejudice to legal and contractual provisions in this case, too.

As far as operations on distressed retail loans are concerned, with a business model that 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 16% of the bond portfolio consisted of inflation-indexed bonds, and the remainder consisted of fixed-rate bonds. The average duration of the overall portfolio is approximately ten months.

The assumption of interest rate risks connected to treasury funding activities occurs respecting the limits and policies of the Board of Directors and is governed by precise proxies fixing limits of autonomy for individuals authorised to carry out treasury operations.

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.

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.

Considering the extent of the risk assumed, Banca IFIS does not usually hedge interest rate risk.

As for the price risk, the Bank 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 Bank'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 Bank assumes while conducting its business. Thanks to the Integrated Treasury System (SIT) and the contribution of the Risk Management Function, the Bank 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	2.464.027	2.486.478	339.785	562.183	526.723	195.187	11.984	-
1.1 Debt securities	-	-	52.741	270.292	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	52.741	270.292	-	-	-	-
1.2 Loans to banks	26.237	1.772.530	-	-	-	-	-	-
1.3 Loans to customers	2.437.789	713.948	287.044	291.891	526.723	195.187	11.984	-
- current accounts	121.814	6	624	238	14.331	3.928	128	-
- other loans	2.315.975	713.942	286.420	291.653	512.392	191.259	11.856	-
- with early redemption option	100.732	63	204	863	13	-	-	-
- other	2.215.243	713.879	286.216	290.790	512.379	191.259	11.856	-
2. On-balance-sheet liabilities	976.332	3.057.443	220.938	399.284	1.538.602	1.053	1.909	-
2.1 Due to customers	890.252	2.655.138	184.938	390.284	1.538.602	1.053	1.909	-
- current accounts	890.252	1.609.680	182.639	388.299	1.536.475	-	-	-
- other payables	-	1.045.458	2.299	1.985	2.127	1.053	1.909	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	1.045.458	2.299	1.985	2.127	1.053	1.909	-
2.2 Due to banks	86.080	402.305	36.000	9.000	-	-	-	-
- current accounts	86.080	-	-	-	-	-	-	-
- 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	-	-	-	-	-	-	-	-

2.3 Currency risk

Qualitative information

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 Bank's policies. The Bank's currency operations basically 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 connected to exchange rate fluctuations. In some cases, synthetic instruments are used as hedging instruments.

A residual currency risk arises as a natural consequence of the mismatch between the clients' borrowings 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 Bank'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 Bank.

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.

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	211.663	944	4	38	4	16.742
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	-	-	-	-	-	-
A.3 Loans to banks	169.269	27	4	37	0	4.379
A.4 Loans to customers	42.395	917	0	1	4	12.363
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	-	-	-	-	-	-
C. Financial liabilities	65.108	163	20	-	163	6.003
C.1 Due to banks	63.471	153	20	0	163	5.993
C.2 Due to customers	1.637	10	0	0	0	10
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives	133.060	-	-	-	-	61.899
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other	133.060	-	-	-	-	61.899
+ long positions	493	0	0	0	0	27.358
+ short positions	132.568	0	0	0	0	34.541
Total assets	212.156	944	4	38	4	44.100
Total liabilities	197.676	163	20	-	163	40.544
Unbalance (+/-)	14.480	780	16	38	159	3.556

2.4 Derivative instruments**A. Financial derivatives**

Banca IFIS 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 487 thousand Euro and a negative fair value of 2.498 thousand Euro. As for the transactions entered into, it should be noted that the Bank never undertakes speculative transactions.

A.1 Supervisory trading book: year-end notional amounts

Underlying assets/type of derivatives	31.12.2016		31.12.2015	
	Over the counter	Central counter-parts	Over the counter	Central counter-parts
1. Debt securities and interest rates	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share in-	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	191.830	-	86.872	-
a) Options	-	-	-	-
b) Swaps	191.830	-	86.872	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Goods	-	-	-	-
5. Other underlying assets	-	-	-	-
Total	191.830	-	86.872	-

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	487	-	260	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	487	-	260	-
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	487	-	260	-

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	2.498	-	338	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	2.498	-	338	-
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	2.498	-	338	-

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	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2) Equity instruments and share indexes							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currencies and gold							
- notional amount	-	-	157.946	33.884	-	-	-
- positive fair value	-	-	397	90	-	-	-
- negative fair value	-	-	2.031	467	-	-	-
- future exposure	-	-	275	30	-	-	-
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	191.830	-	-	191.830
A.1 Financial derivatives on debt securities and interest rates	-	-	-	-
A.2 Financial derivatives on equity instruments and share indexes	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	191.830	-	-	191.830
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	191.830	-	-	191.830
Total 31.12.2015	86.872	-	-	86.872

Section 3 – 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 Bank 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 Bank 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, funding operations carried out on the domestic and international interbank market as well as with the Eurosystem, and the liquidity arising from the self-securitisation of assets. Considering the Bank's asset composition, the type of activity it carries out, and the strategies the Board of Directors has defined in order to limit factoring operations to trade receivables with short or very short maturities (as a rule not exceeding 6 months, with the exception of that with the Civil Service that can be up to 12 months), the liquidity risk for Banca IFIS, in the face of current physiological conditions on financial markets, is not critical.

With reference to the Bank'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.

Banca IFIS 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 Bank's operations.

At the moment, the available financial resources are adequate for current and future business volumes. Nonetheless, the Bank is constantly striving to improve the state of its financial resources, in terms of both size and cost.

The Bank'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 Bank.

More specifically, as part of current operations and based on indications from the Treasury Department, as well as assessments of lending trends, the Top Management establishes policies for financing operations with durations over 3 months, in order to support ordinary short-term treasury operations, as well as manage and monitor liquidity risk.

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 compliance with supervisory provisions, the Bank also has a Contingency Funding Plan aimed at protecting the Bank 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.

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 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	812.832	105.222	101.846	360.368	1.558.931	453.290	733.990	1.076.513	640.152	1.016.569
A.1 Government bonds	-	-	-	-	-	412	270.704	50.000	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	812.832	105.222	101.846	360.368	1.558.931	452.878	463.286	1.026.513	640.152	1.016.569
- banks	26.237	18.026	2.505	-	736.510	-	-	-	-	1.016.569
- customers	786.595	87.196	99.341	360.368	822.421	452.878	463.286	1.026.513	640.152	-
On-balance-sheet liabilities	978.943	35.508	55.580	359.910	1.835.884	222.131	407.723	2.317.831	2.989	-
B.1 Deposits and current accounts	978.943	35.508	55.580	359.898	1.514.660	222.067	407.650	1.536.475	-	-
- banks	86.080	97	2.856	261.089	88.551	36.195	9.082	-	-	-
- customers	892.863	35.411	52.724	98.809	1.426.109	185.872	398.568	1.536.475	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	12	321.224	64	73	781.356	2.989	-
Off-balance-sheet transactions	-	-	5.948	119.772	197.940	60.000	-	-	-	-
C.1 Financial derivatives with exchange of underlying assets	-	-	5.948	119.772	197.940	60.000	-	-	-	-
- long positions	-	-	2.974	59.886	98.970	30.000	-	-	-	-
- short positions	-	-	2.974	59.886	98.970	30.000	-	-	-	-
C.2 Financial derivatives without exchange of underlying assets	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable loan commitments	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
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 securitisation conducted in late 2016 and its 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 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 Bank'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.

Section 4 – 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.

Banca IFIS 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 Risk Self Assessment, which allowed to identify the most recurring/material risks and therefore establish the most appropriate mitigating measures. As far as business continuity is concerned, Banca IFIS has adopted a Business Continuity Plan, that is a set of initiatives and counter-measures designed to keep business interruptions within the limits set in business continuity strategies. The Business Continuity Plan also includes the Disaster Recovery plan, designed to deal with events that could disrupt the corporate IT systems.

To calculate capital requirements against operational risks, the Bank adopted the Basic Indicator Approach.

Part F - Equity

Section 1 – 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. Banca IFIS 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 Company's equity: breakdown**

Equity items	31.12.2016	31.12.2015
Share capital	53.811	53.811
Share premiums	101.776	58.900
Reserves	372.106	288.350
-retained earnings	366.641	186.862
a) legal reserves	10.762	10.762
b) statutory reserve	-	-
c) treasury shares	-	-
d) other	355.879	176.100
-other ⁽¹⁾	5.465	101.488
Equity instruments	-	-
(Treasury shares)	(3.187)	(5.805)
Valuation reserves:	747	11.510
- Available for sale financial assets	955	11.677
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Foreign investment hedges	-	-
- Cash flow hedges	-	-
- Exchange differences	-	-
- Non-current assets under disposal	-	-
- Actuarial gains (losses) on defined benefit plans	(208)	(167)
- Share of valuations reserves of equity-accounted investments	-	-
- Specific revaluation laws	-	-
Profit (loss) for the period (+/-)	71.722	160.743
Equity	596.975	567.509

(1) The item included 3,2 million Euro in treasury shares not deriving from retained earnings.

B.2 Valuation reserves of available for sale financial assets: breakdown

Assets/Amounts	31.12.2016		31.12.2015	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	776	-	11.678	-
2. Equity securities	180	1	-	1
3. UCITS units	-	-	-	-
4. Loans	-	-	-	-
Total	956	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	1.899	180	-	-
2.1 Fair value gains	-	180	-	-
2.2 Reclassification to profit or loss of negative reserves:				
- from impairment losses	-	-	-	-
- from realisation	-	-	-	-
2.3 Other changes	1.899	-	-	-
3. Reductions	12.801		-	-
3.1 Fair value losses	7.539	-	-	-
3.2 Impairment losses	-	-	-	-
3.3 Reclassification to profit or loss of positive reserves:				
- from realisation	5.262	-	-	-
3.4 Other changes	-	-	-	-
4. Closing balance	776	179	-	-

As required by article 2427, paragraph 7-bis of the Italian Civil Code, the following table shows the equity items along with the nature, utilization and distribution possibilities, as well as what has been used in previous years.

Equity items	Amount as of 31.12.2016	Potential Usage Purpose (*)	Available Amount	Activity Summary for last three years	
				Losses coverage	Other reasons
Share capital	53.811		-	-	-
Share premiums	101.776	A, B, C ⁽¹⁾	101.776	-	20.000
Reserves:	372.106		371.078	-	-
- Legal reserve	10.762	B	10.762	-	-
- Extraordinary reserve	357.955	A, B, C	357.955	-	-
- Reserves from International Accounting Standards adoption	(2.159)		-	-	-
- Treasury shares	3.187	A, B ⁽²⁾	-	-	-
- Other reserves	2.361	A, B, C	2.361	-	-
Valuation reserves:	747		-	-	-
- Available for sale financial assets	955	⁽³⁾	-	-	-
- Actuarial gains (losses) on defined benefit plans	(208)		-	-	-
Treasury shares (-)	(3.187)		-	-	-
Profit for the year	71.722		-	-	-
Total	596.975		472.854	-	20.000

(*) A = to increase capital, B = to cover losses, C = for distribution to shareholders.

(1) The share premium reserve is available and distributable as the legal reserve has reached one fifth of the share capital

(2) Available within the limits of the amount of treasury shares, pursuant to article 2357 of the Italian Civil Code.

(3) The reserve is restricted pursuant to article 6 of Italian Legislative Decree 38/2005.

Section 2 – Own funds and prudential ratios

2.1 Own funds

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.

The measures concerning own funds provide for the gradual phase-in of a new regulatory framework, with a transitional period lasting until 2017.

A. Qualitative information

1. Common equity Tier 1 Capital (CET1)

A) Common Equity Tier 1 Capital (CET1)

This item includes:

- 53,8 million Euro in paid-up capital instruments;
- 101,8 million Euro in share premium;
- 3,2 million Euro in own CET1 instruments;
- 400,8 million Euro in other reserves, including retained earnings. Specifically, this item includes the 27,9 million Euro profit recognised under Own Funds pursuant to article 26 of the CRR, less 43,8 million Euro in dividends;
- other items of comprehensive income, positive to the tune of 0,7 million Euro and consisting of:

- 0,2 million Euro in the negative reserve for actuarial losses deriving from defined-benefit plans in accordance with the new IAS19;
- 0,9 million Euro in positive reserves for available for sale financial assets.

D) Items to be deducted from CET1

This item includes the following main aggregates:

13,1 million Euro in intangible assets.

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 0,8 million Euro (-);
- positive filter on negative actuarial reserves (IAS 19), amounting to 0,1 million Euro (+).

2. Additional Tier 1 Capital (AT1)

The Additional Tier 1 Capital is immaterial.

3. Tier 2 Capital (T2)

Tier 2 Capital includes 36,2 million Euro in unrealised gains on AFS equity instruments.

B. Quantitative information

	31.12.2016	31.12.2015
A. Common Equity Tier 1 (CET1) before application of prudential filters	553.161	527.175
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)	553.161	527.175
D. Items to be deducted from CET1	13.117	6.350
E. Transitional regime - Impact on CET1 (+/-), including minority interests subject to transitional provisions	(722)	(11.544)
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	539.322	509.281
G. Additional Tier 1 Capital (AT1) gross of items to be deducted and the effects of the transitional regime	-	-
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	-	-
L. Total Additional Tier 1 Capital (AT1) (G-H+/-I)	-	-
M. Tier 2 Capital (T2) gross of items to be deducted and the effects of the transitional regime	-	-
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	36	-
P. Total Tier 2 Capital (T2) (M-N+/-O)	36	-
Q. Total own funds (F+L+P)	539.358	509.281

2.2 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, Own Funds totalled 539,4 million Euro, compared with 3.913,1 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 Bank had a CET1 capital ratio of 13,78%, a Tier1 capital ratio of 13,78%, and a Total capital ratio of 13,78%.

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	7.530.932	7.149.804	3.350.235	2.735.747
1. Standardised approach	7.530.932	7.149.804	3.350.235	2.735.747
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			268.019	218.860
B 2. Credit valuation adjustment risk			-	-
B 3. Settlement risk			-	-
B.4 Market risks			1.494	912
1. Standard method			1.494	912
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			43.533	41.539
1. Basic indicator approach			43.533	41.539
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation factors			-	-
B.7 Total prudential requirements			313.046	261.311
C. RISK ASSETS AND CAPITAL REQUIREMENT RATIOS			-	-
C.1 Risk-weighted assets			3.913.075	3.266.381
C.2 Common equity tier 1 capital / Risk-weighted assets (CET1 Capital ratio)			13,78%	15,59%
C.2 Tier 1 Capital / Risk-weighted assets (Tier 1 capital ratio)			13,78%	15,59%
C.4 Total own funds / Risk-weighted assets (Total capital ratio)			13,78%	15,59%

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 Banca IFIS. 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, 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-perform- ing 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-perform- ing 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 adjustments
	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

Banca IFIS 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.

In 2016, Banca IFIS carried out a major transaction with the subsidiary IFIS Finance Sp. Z o.o., as disclosed on the Bank’s website under the section “Institutional Investors”, subsection “Information documents”.

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 Banca IFIS include:

- the parent company;
- subsidiaries;
- 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	Subsidiaries	Key management personnel	Other related parties	Total	As a % of the item
Due from banks	-	735.443	-	-	735.443	40,9%
Loans to customers	-	878.903	-	1.687	880.590	19,7%
Other assets	43.864	1.087	-	-	44.951	28,7%
Total assets	43.864	1.615.433	-	1.687	1.660.984	23,6%
Due to banks	-	35.366	-	-	35.366	6,6%
Due to customers	-	-	264	1.317	1.581	0,0%
Financial liabilities held for trading	-	377	-	-	377	15,1%
Total liabilities	-	35.743	264	1.317	37.324	0,5%

Items	Parent company	Subsidiaries	Key management personnel	Other related parties	Total	As a % of the item
Interest receivable	-	3.086	-	40	3.126	1,0%
Interest due	-	-	(2)	(14)	(16)	0,0%
Commission income	-	-	-	12	12	0,0%
Net result from trading	-	(400)	-	-	(400)	78,7%
Other administrative expenses	-	22	-	-	22	0,0%
Other operating income/expenses	17	251	-	-	268	(8,0)%

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 **subsidiaries** relate to:

- the 34,3 million Euro loan Banca IFIS granted to the subsidiary IFIS Finance Sp.Zo.o.;
- 377 thousand Euro in interest rate swaps between Banca IFIS and IFIS Finance Sp. Zo.o.;
- 1.580 million Euro in loans Banca IFIS granted to the subsidiaries Interbanca S.p.A., IFIS Leasing S.p.A., IFIS Factoring S.r.l., and IFIS Rental Services S.r.l., and 947 thousand Euro in interest accrued on said loans classified as other assets;
- 140 thousand Euro in secondment agreements classified as other assets;
- the zero balance system with the subsidiary Interbanca, amounting to a 35,4 million Euro payable at 31 December 2016.

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: Banca IFIS'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 guaranteed by closer relatives of 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 Banca IFIS 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.

Part L - Segment reporting

In accordance with IFRS 8, Banca IFIS S.p.A., Parent Company of the Banca IFIS Group, presents the segment reporting in Part L of the Notes to the Consolidated Financial Statements.

Venice - Mestre, 16 March 2017

For the Board of Directors

The Chairman

Sebastien Egon Fürstenberg

The C.E.O.

Giovanni Bossi

Attachments to the Separate Financial Statements:

Attachments to the Separate Financial Statements:

Financial Statements of the Subsidiaries

IFIS Finance Sp. Z o.o.

IFIS FINANCE SP. Z O.O.

Balance Sheet

(All amounts are stated in PLN thousand)

ASSETS	Note	31.12.2016	31.12.2015
Non-current assets		835	1 281
Property, plant and equipment	1		
Tangible fixed assets			
plant and machinery		14	27
motor vehicles		146	246
other [tangible] fixed assets		26	41
		<u>186</u>	<u>314</u>
Long-term receivables	2		
From other entities		195	188
		<u>195</u>	<u>188</u>
Long-term prepayments and deferred costs			
Deferred tax assets	12.3	454	779
		<u>454</u>	<u>779</u>
Current assets		299 665	292 641
Short-term receivables			
trade receivables		-	-
other		6	7
taxation, customs duty, social security and other debtors		56	-
		<u>62</u>	<u>7</u>
Short-term investments			
in affiliates	3.1	2 566	1 340
in other entities	3.2	244 552	247 046
cash and other monetary assets	3.3	52 450	44 191
		<u>299 568</u>	<u>292 577</u>
Short-term prepayments and deferred costs	4	35	57
TOTAL ASSETS		<u>300 500</u>	<u>293 922</u>

IFIS FINANCE SP. Z O.O.

Balance Sheet

(All amounts are stated in PLN thousand)

EQUITY AND LIABILITIES	Note	31.12.2016	31.12.2015
Equity			
Share capital	5.1	47 000	47 000
Reserve capital		66 496	66 496
Other capital reserves		20 794	15 676
Net profit		7 732	5 118
		<u>142 022</u>	<u>134 290</u>
Liabilities and provisions for liabilities		158 478	159 632
Provisions for liabilities			
Deferred tax liability	12.3	525	255
		<u>525</u>	<u>255</u>
Long-term liabilities			
To other entities	6.1	41	152
other financial liabilities		41	152
		<u>41</u>	<u>152</u>
Short-term liabilities			
To affiliates		152 619	152 309
trade liabilities		529	0
other	7.1	152 090	152 309
To other entities		4 608	5 982
other financial liabilities	7.2	4 184	5 301
trade liabilities	7.3	0	2
taxation, customs duty, social insurance and other creditors		424	679
		<u>157 227</u>	<u>158 291</u>
Accruals and deferred income			
Other		685	934
- short-term	8.1	685	934
		<u>685</u>	<u>934</u>
TOTAL EQUITY AND LIABILITIES		<u>300 500</u>	<u>293 922</u>

Alessandro Csillaghy de Pacser
President of the Management Board

Daniela Bonzanini
Member of the Management Board

Agnieszka Moskwiak
Chief Accountant
Person entrusted with keeping
the Company's books of account

Warsaw, 8 February 2017

IFIS FINANCE SP. Z O.O.**Profit and Loss Account**

(All amounts are stated in PLN thousand)

	Note	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Net sales and sales equivalents	9		
Net sales of products		15 234	11 987
		<u>15 234</u>	<u>11 987</u>
Operating expenses			
Depreciation/ amortisation		-	(57)
Materials and energy		(23)	(30)
External services		(2 846)	(2 605)
Taxes and charges		(108)	(109)
Payroll		(1 588)	(2 101)
Social security and other allowances		(279)	(380)
		<u>(4 844)</u>	<u>(5 282)</u>
Profit on sales		10 390	6 705
Other operating income			
Gains on disposal of non-financial long-term assets		-	-
Other		5	11
		<u>5</u>	<u>11</u>
Other operating expenses			
Other		(378)	(45)
		<u>(378)</u>	<u>(45)</u>
Operating profit		10 017	6 671
Financial income			
Interest	10	534	584
Other		747	1 792
		<u>1 281</u>	<u>2 376</u>
Financial expenses			
Interest	11	(576)	(476)
- of which: to affiliates		(558)	(444)
Other		(1 004)	(2 156)
		<u>(1 580)</u>	<u>(2 632)</u>

IFIS FINANCE SP. Z O.O.
Profit and Loss Account

(All amounts are stated in PLN thousand)

	<u>Note</u>	<u>01.01.2016 - 31.12.2016</u>	<u>01.01.2015 - 31.12.2015</u>
Gross profit		9 718	6 415
Corporate income tax	12.1	(1 986)	(1 297)
Net profit		<u>7 732</u>	<u>5 118</u>

Alessandro Csillaghy de Pacser
President of the Management Board

Daniela Bonzanini
Member of the Management Board

Agnieszka Moskwiak
Chief Accountant
*Person entrusted with keeping
the Company's books of account*

Warsaw, 8 February 2017

**Attachments to the Separate Financial Statements:
Financial Statements of the Subsidiaries**

Interbanca S.p.A.

STATO PATRIMONIALE INDIVIDUALE (in euro)

Voci dell'attivo		31.12.2016	31.12.2015
20.	Attività finanziarie detenute per la negoziazione	46.988.616	52.275.303
40.	Attività finanziarie disponibili per la vendita	49.178.863	119.271.377
60.	Crediti verso banche	158.720.421	202.647.625
70.	Crediti verso clientela	1.301.627.425	1.581.459.992
100.	Partecipazioni	361.380.658	301.126.706
110.	Attività materiali	45.897.525	47.183.081
120.	Attività immateriali	415.747	880.058
	<i>di cui: avviamento</i>	-	-
130.	Attività fiscali	199.409.612	224.233.371
	a) correnti	56.026.475	62.822.037
	b) anticipate	143.383.137	161.411.334
	<i>di cui: L.214/2011</i>	143.127.631	161.244.744
150.	Altre attività	40.183.551	44.852.756
	Totale dell'attivo	2.203.802.418	2.573.930.269

Voci del passivo e del patrimonio netto		31.12.2016	31.12.2015
10.	Debiti verso banche	742.463.256	8.121.375
20.	Debiti verso clientela	378.170.998	1.285.884.265
30.	Titoli in circolazione	83.947.096	203.026.725
40.	Passività finanziarie di negoziazione	46.446.992	50.752.091
80.	Passività fiscali	9.848.669	9.396.484
	a) correnti	-	-
	b) differite	9.848.669	9.396.484
100.	Altre passività	63.350.908	59.184.377
110.	Trattamento di fine rapporto del personale	3.750.015	3.635.226
120.	Fondi per rischi e oneri:	8.271.338	11.583.168
	a) quiescenza e obblighi simili	-	-
	b) altri fondi	8.271.338	11.583.168
130.	Riserve da valutazione	25.998.033	43.342.794
160.	Riserve	327.520.311	446.802.648
	a) di utili	53.339.855	53.339.855
	b) altre	274.180.456	393.462.793
170.	Sovrapprezzi di emissione	354.148.171	354.148.171
180.	Capitale	217.335.282	217.335.282
200.	Utile (Perdita) del periodo (+/-)	(57.448.651)	(119.282.337)
	Totale del passivo e del patrimonio netto	2.203.802.418	2.573.930.269

CONTO ECONOMICO (in euro)

	Voci	31.12.2016	31.12.2015
10.	Interessi attivi e proventi assimilati	39.767.669	48.132.198
20.	Interessi passivi e oneri assimilati	(25.404.794)	(35.404.088)
30.	Margine di interesse	14.362.875	12.728.110
40.	Commissioni attive	6.579.877	6.455.584
50.	Commissioni passive	(7.137.182)	(2.463.527)
60.	Commissioni nette	(557.305)	3.992.057
70.	Dividendi e proventi simili	56.163.831	548.140
80.	Risultato netto dell'attività di negoziazione	(25.355.143)	(777.147)
90.	Risultato netto dell'attività di copertura	-	-
100.	Utile (perdita) da cessione o riacquisto di:	422.061	13.242.139
	a) crediti	-	-
	b) attività finanziarie disponibili per la vendita	422.057	13.226.440
	c) attività finanziarie detenute sino alla scadenza	-	-
	d) passività finanziarie	4	15.699
120.	Margine di intermediazione	45.036.319	29.733.299
130.	Rettifiche/riprese di valore nette per deterioramento di:	(34.363.321)	(45.799.627)
	a) crediti	(22.723.544)	(45.721.796)
	b) attività finanziarie disponibili per la vendita	(11.159.953)	(24.584)
	c) attività finanziarie detenute sino alla scadenza	-	-
	d) altre operazioni finanziarie	(479.824)	(53.247)
140.	Risultato netto della gestione finanziaria	10.672.998	(16.066.328)
150.	Spese amministrative:	(58.971.534)	(56.114.638)
	a) spese per il personale	(31.455.744)	(28.593.978)
	b) altre spese amministrative	(27.515.790)	(27.520.660)
160.	Accantonamenti netti ai fondi per rischi e oneri	539.763	363.459
170.	Rettifiche/riprese di valore nette su attività materiali	(1.326.427)	(1.376.158)
180.	Rettifiche/riprese di valore nette su attività immateriali	(464.311)	(906.578)
190.	Altri oneri/proventi di gestione	7.398.616	9.984.404
200.	Costi operativi	(52.823.893)	(48.049.511)
210.	Utili (perdite) delle partecipazioni	(14.603.409)	(61.194.098)
250.	Utile (perdita) della operatività corrente al lordo delle imposte	(56.754.304)	(125.309.937)
260.	Imposte sul reddito del periodo dell'operatività corrente	(694.347)	6.027.600
270.	Utile (perdita) della operatività corrente al netto delle imposte	(57.448.651)	(119.282.337)
290.	Utile (perdita) del periodo	(57.448.651)	(119.282.337)

Attachments to the Separate Financial Statements:
Financial Statements of the Subsidiaries

IFIS Factoring S.r.l.

STATO PATRIMONIALE

Importi in unità di Euro

	Voci dell'attivo	31 dicembre 2016	31 dicembre 2015
10.	Cassa e disponibilità liquide	2.242	1.255
60.	Crediti	249.646.147	318.834.019
	6.1 Crediti verso banche	57.591.342	299.130
	6.5 Crediti verso clientela	192.054.805	318.534.889
110.	Attività immateriali	470.193	652.660
120.	Attività fiscali	6.783.297	7.769.685
	a) correnti	455.775	1.290.578
	b) anticipate	6.327.522	6.479.107
	- di cui alla L.214/2011	6.305.216	6.466.637
140.	Altre attività	407.389	380.814
	TOTALE ATTIVO	257.309.268	327.638.433

Importi in unità di Euro

	Voci del passivo e del patrimonio netto	31 dicembre 2016	31 dicembre 2015
10.	Debiti	135.010.222	192.125.759
	10.1 Debiti verso banche	133.156.242	5.269
	10.2 Debiti verso enti finanziari	0	186.467.208
	10.3 Debiti verso la clientela	1.853.980	5.653.282
70.	Passività fiscali	57.170	109.254
	a) correnti	0	0
	b) differite	57.170	109.254
90.	Altre passività	12.819.844	19.265.915
100.	Trattamento di fine rapporto del personale	291.984	274.521
110	Fondi per rischi e oneri*	250.008	362.864
	b) altri fondi	250.008	362.864
120.	Capitale	123.240.000	123.240.000
150.	Sovrapprezzi di emissione	4.400.213	4.400.213
160.	Riserve	(12.100.042)	(9.143.670)
170.	Riserve da valutazione	(45.146)	(39.490)
180.	Utile (Perdita) d'esercizio	(6.614.985)	(2.956.933)
	TOTALE PASSIVO E PATRIMONIO NETTO	257.309.268	327.638.433

CONTO ECONOMICO

Importi in unità di Euro

	Voci	31 dicembre 2016	31 dicembre 2015
10.	Interessi attivi e proventi assimilati	2.840.447	3.460.376
20.	Interessi passivi e oneri assimilati	(982.926)	(963.344)
	MARGINE DI INTERESSE	1.857.521	2.497.032
30.	Commissioni attive	3.412.840	4.269.723
40.	Commissioni passive	(955.270)	(993.769)
	COMMISSIONI NETTE	2.457.570	3.275.954
	MARGINE DI INTERMEDIAZIONE	4.315.091	5.772.986
100.	Rettifiche/Riprese di valore nette per deterioramento di:	(1.602.267)	687.606
	a) attività finanziarie	(1.602.267)	687.606
110.	Spese amministrative:	(9.683.109)	(9.396.261)
	a) spese per il personale	(3.636.772)	(3.593.125)
	b) altre spese amministrative	(6.046.337)	(5.803.136)
130.	Rettifiche/Riprese di valore nette su attività immateriali	(212.107)	(183.584)
150.	Accantonamenti netti ai fondi per rischi e oneri	113.391	(23.236)
160.	Altri proventi e oneri di gestione	402.425	187.114
	RISULTATO DELLA GESTIONE OPERATIVA	(6.666.576)	(2.955.375)
	UTILE (PERDITA) DELL' ATTIVITA' CORRENTE AL LORDO DELLE IMPOSTE	(6.666.576)	(2.955.375)
190.	Imposte sul reddito dell'operatività corrente	51.591	(1.558)
	UTILE (PERDITA) DELL' ATTIVITA' CORRENTE AL NETTO DELLE IMPOSTE	(6.614.985)	(2.956.933)
	UTILE (PERDITA) D'ESERCIZIO	(6.614.985)	(2.956.933)

Attachments to the Separate Financial Statements:
Financial Statements of the Subsidiaries

IFIS Leasing S.p.A.

STATO PATRIMONIALE

Importi in unità di euro

	Voci dell'attivo	31.12.2016	31.12.2015
20.	Attività finanziarie detenute per la negoziazione	6.793	0
60.	Crediti	1.037.055.644	1.010.109.978
90.	Partecipazioni	43.552.016	61.278.048
100.	Attività materiali	413.270	516.343
110.	Attività immateriali	179.500	290.632
120.	Attività fiscali	43.096.644	43.483.529
	a) correnti	127.900	95.382
	b) anticipate	42.968.744	43.388.147
	di cui alla L. 241/2011	42.875.503	44.236.868
130.	Attività non correnti e gruppi di attività in via di dismissione	0	0
140.	Altre attività	51.332.569	49.676.021
	TOTALE ATTIVO	1.175.636.436	1.165.354.551

	Voci del passivo e del patrimonio netto	31.12.2016	31.12.2015
10.	Debiti	893.404.546	891.038.149
70.	Passività fiscali	423.472	219.661
	a) correnti	389.789	0
	b) differite	33.683	219.661
90.	Altre passività	26.460.199	26.057.176
100.	Trattamento di fine rapporto del personale	1.950.268	1.928.260
110.	Fondi per rischi e oneri	5.139.624	6.058.672
	b) altri fondi	5.139.624	6.058.672
120.	Capitale	41.000.000	41.000.000
160.	Riserve	199.283.861	195.990.180
170.	Riserve da valutazione	(39.038)	(231.228)
180.	Utile (Perdita) d'esercizio	8.013.504	3.293.681
	TOTALE PASSIVO E PATRIMONIO NETTO	1.175.636.436	1.165.354.551

CONTO ECONOMICO

Importi in unità di euro

	Voci	31.12.2016	31.12.2015
10.	Interessi attivi e proventi assimilati	39.733.669	42.914.107
20.	Interessi passivi e oneri assimilati	(12.502.670)	(14.043.189)
	MARGINE DI INTERESSE	27.230.999	28.870.918
30.	Commissioni attive	5.928.373	5.001.922
40.	Commissioni passive	(14.583.056)	(4.143.011)
	COMMISSIONI NETTE	(8.654.683)	858.911
50.	Dividendi e proventi simili	14.903.262	0
60.	Risultato netto dell'attività di negoziazione	6.793	0
	MARGINE DI INTERMEDIAZIONE	33.486.371	29.729.829
100.	Rettifiche/riprese di valore nette per deterioramento di:	(6.108.602)	(12.492.798)
	a) attività finanziarie	(6.108.602)	(12.492.798)
110.	Spese amministrative:	(24.463.034)	(24.758.909)
	a) spese per il personale	(12.260.018)	(11.942.531)
	b) altre spese amministrative	(12.203.016)	(12.816.378)
120.	Rettifiche/riprese di valore nette su attività materiali	(181.845)	(268.123)
130.	Rettifiche/riprese di valore nette su attività immateriali	(111.132)	(131.681)
150.	Accantonamenti netti ai fondi per rischi e oneri	(100.027)	(616.055)
160.	Altri proventi e oneri di gestione	11.738.816	11.681.783
	RISULTATO DELLA GESTIONE OPERATIVA	14.260.547	3.144.046
170.	Utile (perdite) delle partecipazioni	(5.726.090)	(722.429)
180.	Utile (perdite) da cessione di investimenti	51.336	38.373
	UTILE (PERDITA) DELL' ATTIVITA' CORRENTE AL LORDO DELLE IMPOSTE	8.585.793	2.459.990
190.	Imposte sul reddito dell'esercizio dell'operatività corrente	(572.289)	833.691
	UTILE (PERDITA) DELL' ATTIVITA' CORRENTE AL NETTO DELLE IMPOSTE	8.013.504	3.293.681
	UTILE (PERDITA) D'ESERCIZIO	8.013.504	3.293.681

Attachments to the Separate Financial Statements:
Financial Statements of the Subsidiaries

IFIS Rental Services S.r.l.

	31/12/2016
Immobilizzazioni immateriali nette	0
Immobilizzazioni materiali nette	265.848.501
Immobilizzazioni finanziarie nette	0
Capitale immobilizzato (CI)	265.848.501
Crediti verso Clienti	18.265.614
Altri crediti	9.180.616
Ratei e risconti attivi	2.465.748
Attività d'esercizio a breve termine (ABT)	29.911.978
Debiti verso fornitori	9.767.038
Debiti tributari e previdenziali	456.494
Altri debiti	1.283.858
Ratei e risconti passivi	17.032.001
Passività d'esercizio a breve termine (PBT)	28.539.391
Capitale investito al lordo delle passività a M/L termine	267.221.087
Altre passività a medio e lungo termine	883.921
Passività a medio lungo termine (PMT)	883.921
Capitale investito al netto delle passività a M/L termine	266.337.166
Patrimonio netto (PN)	121.714.327
Posizione finanziaria netta a medio lungo termine	150.432.121
Posizione finanziaria netta a breve termine	-5.809.283
Mezzi propri e indebitamento finanziario netto	266.337.166

	31/12/2016
Depositi bancari	5.810.164
Disponibilità liquide (A)	5.810.164
Debiti verso banche a breve termine	-888
Debiti verso banche a medio/lungo termine	-150.432.114
Totale Debiti finanziari (B)	-150.433.002
Posizione finanziaria netta (A+B)	-144.622.838

	31/12/2016
Ricavi netti	23.123.505
Costi di produzione	-2.634.023
Valore Aggiunto (VA)	20.489.482
Costo del lavoro	-339.343
Margine Operativo Lordo (MOL)	20.150.139
Ammortamenti, svalutazioni ed altri accantonamenti	-19.438.577
Proventi diversi	1.492.204
Risultato Operativo (ROP)	2.203.766
Proventi e oneri finanziari	-488.633
Rettifiche di valore nette partecipazioni	0
Risultato Ordinario (RO)	1.715.134
Componenti straordinarie nette	0
Risultato prima delle imposte (RAI)	1.715.134
Imposte sul reddito	-10.806
Risultato netto (RN)	1.704.327
Patrimonio netto (PN)	121.714.327
Totale Attivo (ATT)	301.570.642

Attachments to the Separate Financial Statements:

Independent auditors' fees and other fees as per art. 149 duodecies of Consob Regulation no. 11971 of 14 May 1999

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

Declaration on the financial statements as per article 154-bis, paragraph 5 of Italian Legislative Decree 58 of 24 February 1998 and article 81-ter of Consob Regulation no. 11971 of 14 May 1999 as amended and supplemented

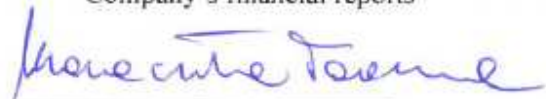
1. We the undersigned, Giovanni Bossi – CEO and Mariacristina Taormina – in her capacity as Manager charged with preparing the financial reports of Banca IFIS S.p.A., having also taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of the Italian Legislative Decree no.58 dated 24 February 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 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 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 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.
 - 3.2 the management report contains a reliable analysis of the business outlook and management result, the financial position of the issuer and a description of the main risks and uncertainties it is exposed to.

Venice, March 16th, 2017

CEO

 Giovanni Bossi

Manager charged with preparing the
 Company's financial reports


 Mariacristina Taormina

Board of Statutory Auditors' report

**REPORT OF THE BOARD OF STATUTORY AUDITORS
to the FINANCIAL STATEMENTS as of 31st December 2016**

Dear Shareholders,

With this report, prepared pursuant to art. 153 of Legislative Decree 58/1998 and to art. 2429, paragraph 2, of the Italian Civil Code, the Board of Statutory Auditors of Banca IFIS S.p.A. informs you of the supervisory and control activities carried out in the performance of their duties, during the year ended 31st December 2016.

You are reminded that, according to the provisions of the by-laws which govern elections, during the Shareholders' Meeting on 22 March 2016 you renewed the Board of Statutory Auditors in the persons of the undersigned Giacomo Bugna, Giovanna Ciriotto and Massimo Miani.

1. Activity of the Board of Statutory Auditors

During the year 2016 the Board of Statutory Auditors carried out their institutional tasks in accordance with the rules of the Italian Civil Code and with Legislative Decrees no. 385/1993 (1993 Banking Law), no. 39/2010 and no. 58/1998 (Consolidated Law on Finance), of the By-Laws, in addition to being in compliance with those issued by the public authorities that exercise activities of supervision and control, also taking into account the principles of conduct recommended by the National Council of Chartered Accountants in the document of 15 April 2015.

During the year the Board of Statutory Auditors performed its duties, holding 28 meetings, of which 6 were held jointly with the Risk Management and Internal Control Committee, and one jointly with all the three committees within the Board of Directors.

The Board also participated in 21 meetings of the Board of Directors.

The Chairman of the Board of Statutory Auditors or another Auditor also participated in the meetings of the Risk Management and Internal Control Committee, of the Appointments Committee and of the Remuneration Committee.

The minutes of the Board of Statutory Auditors, which sometimes contain explicit recommendations to rapidly resolve difficulties that have come to light, are always sent in their entirety to the CEO and to the General Manager. The Chairman of the Risk Management and Internal Control Committee is constantly invited to attend meetings of the Board of Statutory Auditors. It is believed that such attendance will ensure an adequate flow of information between the committees within the Board of Directors.

The head of the Internal Audit also attends the meetings of the Board of Statutory Auditors, as a permanent invitee for the continuous interaction with the corporate function of third-level control.

In 2016, Banca IFIS S.p.A. was subject to inspections carried out by the Supervisory Authority, which concluded without any findings of note. On request, the Board of Statutory Auditors intervened with the delegation of inspectors.

In light of the comments made in the inspection report, the Bank has made plans for corrective actions which must be carried out in respect of the timings communicated to the Supervisory Authority.

Lastly, it is deemed useful to mention that since 30 November 2016 - the date on which, having received authorisation from the relative Supervisory Authority, Banca IFIS acquired all investments held by GE Capital International Holding Limited, equal to 99.993%, in the share capital of the ex GE Capital Interbanca S.p.A., and therefore also of its subsidiaries IFIS Leasing S.p.A., IFIS Factoring S.r.l. and IFIS Rental Services S.r.l. - the President and an acting member of the Board of Statutory Auditors of Banca Ifis were appointed by the respective Meetings for similar positions in the Boards of Statutory Auditors of the acquired companies: this was in order to increase the efficiency of the activity of governance and the circulation of information throughout the entire group.

2. Significant operations of the year

In carrying out the activities of supervision and control, the Board of Statutory Auditors obtained periodically from the Directors, including through the participation in meetings of the Board of Directors, information on the activities carried out and on the most important economic, financial and asset liability operations approved and implemented by the Bank and by the subsidiaries, also pursuant to art. 150, paragraph 1 of the Consolidated Law on Finance.

As previously stated, over the course of the year, the acquisition of the GE Capital Interbanca S.p.A. Group was completed. This acquisition led to the widening of the Banca Ifis banking group which is now composed of Banca Ifis S.p.A., IFIS Finance Sp. z.o.o., Interbanca S.p.A., Ifis Leasing S.p.A. and Ifis Factoring S.r.l.. As a consequence, the consolidated companies are more wide-ranging in comparison to the previous year and, as well as including the companies within the banking group, also include Ifis Rental Services S.r.l..

Among the significant events of 2016, the details of which are provided in the Management Report and the Explanatory Notes, it is considered appropriate to report the following, as well as the aforementioned acquisition:

- the preparation of important sources of funding, such as securitisation operations in order to fully reimburse funding provided to the previous parent company of the GE Capital Interbanca S.p.A. group;
- the carrying out of the activity of Purchase Price Allocation (PPA) related to the aforementioned acquisition;
- the assignment of a number of NPL portfolios to the secondary market.

Lastly, it is considered useful to highlight that, as part of the company reorganisation process which will also lead to the merging of Ifis Factoring S.r.l. into the Parent Company by the end of 2017, on 9 February 2017 the Board deliberated on the acquisition of investments in Ifis Factoring S.r.l. held by Interbanca S.p.A. and by IFIS Leasing S.p.A..

3. Supervisory activities

3.1 – supervisory activities on the observance of the law, the By-Laws and the Self-Governance Code for listed companies

On the basis of the information obtained through its own supervisory activities, the Board of Statutory Auditors was not made aware of any operations that had not been conducted in compliance with the principles of correct management and that had not been approved and implemented in accordance with the law and with the By-Laws, which were contrary to the interests of the Bank, that were in contrast with the resolutions passed by the Shareholders' Meeting, that were imprudent or risky or were such as to compromise the integrity of the corporate assets.

The Board was not made aware of any operations that could pose conflicts of interest.

The Board of Statutory Auditors monitored compliance of the Procedure for operations with subjects related to the law in force and its correct application.

In particular, as provided for by the relevant rules, the Chairman and/or the other Statutory Auditors participated in the meetings of the Audit and Risk Committee to discuss operations with related parties; the Board of Statutory Auditors periodically received information relating to the progress of their positions.

Both as a result of the Bank's organisational evolution and of the aforementioned acquisition, the composition of strategic and relevant personnel was updated and persons were identified to be submitted to the procedures envisaged by the company's policies for controlling transactions with associated persons.

The Board of Statutory Auditors judged that the Board of Directors, in the Management Report and in the Explanatory Notes, had provided adequate information on the operations with related parties, taking into account the provisions of the regulations in force. To the knowledge of the Board of Statutory Auditors, there were no intra-group operations or operations with the related parties that were being implemented in 2016 that were contrary to the interests of the company.

In the year 2016, the Bank did not perform any atypical or unusual transactions. With regard to the operations of greater significance and of an ordinary nature, these respect the limits of prudence, do not contravene the resolutions of the Shareholders' Meetings and do not prejudice the company's assets.

During the year the Board of Statutory Auditors brought to the attention of the Management Function Body possible improvements for the procedure for monitoring the Most Important Operations in the context of the application experiences that had occurred.

Regarding the outsourcing of activities of the Bank, and in particular of the Important Operational Functions, the Board of Statutory Auditors:

- monitored the Bank's adjustment to the new regulatory environment (15th amendment to Bank of Italy Circular 263/2006 of 2 July 2013, now included in Circular no. 285/2013),
- acknowledged the report prepared by the Internal Audit department and expressed its opinion at the board meeting of 27 April 2016, as required by the Supervisory Authority,
- recommended to the Management Function Body strict inspection of the activities of alignment with regulatory requirements, the strengthening of monitoring systems regarding the outsourced activities and consequent reporting.

It is deemed useful to take this opportunity to underline that the Board of Statutory Auditors noted that the Board of Directors, having analysed the information contained in the 15th amendment to the Bank of Italy Circular 263/2013 regarding attribution to the Board of Statutory Auditors of the Supervisory Body functions, considered it appropriate to keep separate the functions of the Supervisory Body from those of the Board of Statutory Auditors; this choice, which is discussed in the Corporate Governance Report, is, on the one hand, justified given the number and complexity of the topics that are already normally subject of the tasks of the Board of Statutory Auditors and on the other in light of the specificity of the duties of the Supervisory Body.

The Board of Statutory Auditors, in acknowledging the accession of Banca IFIS S.p.A. to the Self-Governance Code for listed companies, verified the requirements of independence of its members, in addition to the correct application of the criteria and procedures of verification adopted by the Board to assess the independence of the Directors, also following the updating of Corporate Bodies.

3.2 – supervisory activities on the adequacy of the internal control system, of the risk management systems and of the organisational structure

The Board placed emphasis on the implementation of a number of initiatives in the area of organisational structure, geared to strengthening of the management structure and to the continued strengthening of risk monitoring.

Having considered the development of the Bank, not only quantitatively, the Board focused on preparation of organisational safeguards to improve monitoring of the main risks. In this context, the Board of Statutory Auditors acknowledged that audit systems were adapted to the updated composition of the group via the definition of processes and management policies and the coordination of audit processes.

The Board of Statutory Auditors also recommended the strengthening of procedures for the monitoring and auditing of potential risks regarding the increased level of debt resulting from the aforementioned operation of acquisition.

In recognising the changes introduced on an organisational structure level, the Board of Statutory Auditors called the attention of Top Management to the verification of adequacy of dedicated human resources, with particular reference to auditing roles, also in light of the widening of the group of consolidated companies.

Furthermore the NPL Area was subject to organisational evolution, aimed at a more efficient and effective processing of purchased portfolios. In acknowledging the changes, the Board of Statutory Auditors underlined the necessity for improvements in reporting procedures for company bodies regarding the progress and monitoring of NPL Area activity.

Finally on the development of activities related to the strengthening of credit risk monitoring, including the design and implementation of the IRB system for management purposes, the Board stressed the necessary rapidity in the full implementation of the IRB system.

In 2016, continuing the work carried out in the previous year, the Board also:

- i. liaised with Senior Management to review, among other aspects, the internal control and planning process system;
- ii. examined the work planning and coordination procedures, the periodic reports of Control Functions (i.e. Internal Audit, Compliance, Anti-Money Laundering and Risk Management) and the manager responsible, as well as information on the results of the monitoring activities relating to implementation of the corrective actions identified;
- iii. acquired information from the managers of corporate Functions;
- iv. participated, as reported above, in the work of the Audit and Risk Committee and when the topics so required, in their joint consideration with the Committee;
- v. monitored continuation of the Risk Appetite Frameworks;
- vi. monitored the adequacy and compliance of the entire ICAAP process with the requirements of legislation.

From the audits and examination of the Audit Function reports, the continuous and constant strengthening of the internal control system is evident; in particular, of note are:

- the activities aimed at strengthening Risk Management, with reference also to the information flows for the Board for the assessment and control of risks;
- definition of the operational framework of the audit functions in relation to the new group of consolidated companies.

In light of the evolution of the Bank's activities and the more wide-ranging configuration of the banking group, the Board advised improvement of the management and control of sensitive assets and liabilities maturities and of the related financial and economic impacts, thus aiming to achieve the rapid implementation of further adequate organisational safeguards.

Intervention plans were provided with reference to the activities and to the problems identified, whose timely implementation is judged by the Board of Statutory Auditors as essential and that require particular attention by the Management Function Body.

On the basis of the activities carried out, the Board of Statutory Auditors – also in relation to the continuous dimensional growth of the Bank and the group – believes that there are certain areas for possible further improvement, highlighting at the same time that there are no significant deficiencies in the internal control system.

3.3 – supervisory activities on the administrative–accounting system and on the financial reporting process

The Board indicates that the manager responsible for preparation of the company's accounting and corporate documents changed during 2016; it is recognised that the procedure for identification and appointment has been respected and the Board expressed its favourable opinion on the appointment during the Board Meeting on 12 April 2016.

It is deemed useful to highlight that said change originated from the possible evolution of the organisational layout of the Bank, also in light of a possible change to the group of consolidated companies.

The Board periodically met the manager responsible for the exchange of information on the administrative-accounting system and in addition discussed the reliability of the latter in order to have a correct representation of management-related issues.

During these meetings, the Financial Reporting Officer made no indication of any significant shortcomings in the operational and auditing processes which could invalidate the adequacy and effective application of administrative accounting procedures.

The Board examined the Report of the manager responsible containing the results of tests on the controls carried out as well as the main problems identified in the framework of the application of relevant legislation.

During the year the Bank, with the constant support of the Board of Statutory Auditors, improved the audit systems to ensure consistency and alignment of the data between the various characteristic sources of the individual pieces of information.

It is deemed appropriate to highlight the process undertaken by the Bank for the evolution of the ICT information system, which will see the adopting of a new core banking system. In this light the Board of Statutory Auditors recommended the continuous monitoring of costs planned for this initiative, and particular attention to auditing procedures for the integration and aligning of data between the various sources of information, and to the procedure for financial reporting.

The Board of Statutory Auditors also examined declarations, issued on 16 March 2017 for the year 2016, by the CEO and by the manager responsible, in accordance with the provisions contained in art. 154 bis of the Consolidated Law on Finance and in art. 81 ter of the Consob Regulations 11971/1999, from which no failings emerged that might affect the judgement of adequacy of the administrative-accounting procedures.

The Board of Statutory Auditors then acknowledged the monitoring systems developed by the Financial Reporting Officer regarding the relative subsidiaries in the group of consolidated companies which do not demonstrate profiles of significant criticality.

At periodic meetings, and in light of the Report on Fundamental Matters, provided for pursuant to article 19 of Legislative Decree n° 39/2010 and issued on 27 March 2017, the auditing firm Ernst & Young reported no problem situations to the Board of Statutory Auditors that could affect the internal control system relating to the administrative and accounting procedures nor did it ever

highlight facts that were deemed reprehensible or any irregularities that would require reporting pursuant to art. 155, paragraph 2, of the Consolidated Law on Finance.

The Board of Directors prepared, in accordance with the law, the consolidated financial statements as of 31 December 2016 of the Banca IFIS Group that were submitted for audit by the external auditing firm Ernst & Young S.p.A. The group of consolidated companies was significantly modified following the aforementioned acquisition. The Board of Statutory Auditors acknowledged the preparation of instructions provided to the subsidiaries for the process of consolidation. It is deemed useful to highlight that, following the change in ownership of the acquired companies, on 30 November 2016, the auditing company for the same was changed, passing the role of auditing to the auditors of the Ernst & Young S.p.A. group.

With regard to the consolidated financial statements – as required by the rules of conduct recommended by the National Board of Certified Public Accountants in the document of 15 April 2015 – the Board of Statutory Auditors monitored compliance with the procedural rules concerning the formation and setting out of the same and of the management report.

In light of the above, there are no elements which demonstrate that the activity was not carried out in respect for the principles of correct administration, nor that the organisational layout, internal auditing systems and the accounting and administrative systems are not, as a whole, suited to the requirements and dimension of the company.

3.4 – supervisory activities pursuant to Legislative Decree 39/2010

The Board of Statutory Auditors, as the “Committee for internal audit and for the general auditing procedure”, carried out the task of supervision of the external auditing firm's operations, as provided for by art. 19 of Legislative Decree no. 39/2010.

During the year the Board of Statutory Auditors met the external auditing firm Ernst & Young S.p.A. several times, as already stated, pursuant to art. 150 of the Consolidated Law on Finance, in order to exchange information concerning the activities carried out in implementation of their respective duties.

External Auditing Firm

- On 28 July 2016, the auditing firm issued the report on the limited audit of the abbreviated six-monthly consolidated financial statements with no exceptions being highlighted;
- On 27 March 2017 the auditing firm issued – in accordance with art. 14 of Legislative Decree no. 39/2010 – the certification reports from which it is evident that the financial statements and consolidated financial statements, closed at 31 December 2016, are drawn up clearly and represent in a truthful and correct manner the financial and asset situation, the economic results and the cash flows of Banca IFIS S.p.A. and of the Group for the year ended on that date. In the opinion of the external auditing firm, the Management Report on the financial statements and consolidated financial statements as at 31 December 2016 and the information

of the "Report on corporate governance and shareholder structure" are consistent with the annual financial statements and consolidated financial statements as at 31 December 2016.

On 27 March 2017 the external auditing firm presented to the Board of Statutory Auditors the report on the independence of the auditor, as required by art. 17 of Legislative Decree no. 39/2010, from which no situations emerge that might compromise its independence or constitute causes of incompatibility pursuant to the cited decree.

The external auditing firm also submitted to the Board of Statutory Auditors, on the same date, the Report on Key Issues, as provided for under art. 19 of Legislative Decree no. 39/2010, which showed that during the audit of the financial statements and of the consolidated financial statements of Banca IFIS S.p.A., closed at 31 December, 2016, no significant deficiencies in the internal control system were identified in relation to the financial reporting process.

The Board of Statutory Auditors reports that during 2016, in addition to the task of auditing the individual financial statements and the consolidated financial statements (for which the annual fee amounts to € 136,000 plus expenses), Ernst & Young S.p.A., with the agreement of this Board, was appointed to the post for the examination of profiles regarding the consolidated statement of financial position and income statement, complete with explanatory notes, of the Banca Ifis group for the six-month period ending on 30 June 2016 for the preparation of the Explanatory Document pursuant to article 71 of the regulations for the implementation of Legislative Decree of 24 February n° 58, regarding the acquisition of 99.993% of the share capital of GE Capital Interbanca S.p.A. The contracted fee for that position amounts to € 24,000 plus expenses.

Furthermore, on 16 November 2016, regarding the prevision for increased activity to be carried out regarding the auditing of PPA activity affecting the consolidated financial statements for 2016 following the aforementioned acquisition, Ernst & Young S.p.A. put forward a proposal for the integration of remuneration regarding the auditing and certification of the consolidated financial statements for the 2016 financial year.

The Board of Statutory Auditors examined said proposal and, during the Board meeting on 28 November 2016 which approved said integration of remuneration for 2016, expressed its opinion in favour. The integration of remuneration amounts to € 60,000 plus expenses, corresponding to an increased use of resources for 560 hours.

The external auditing firm also confirmed to the Board of Statutory Auditors that, during the year and in the absence of the conditions for their release, it did not issue opinions pursuant to the law.

3.5 – Relations with the Supervisory Body

As recommended by the standards of conduct of the National Council of Chartered Accountants, in 2016 the Board of Statutory Auditors acquired from the Supervisory Body all the information useful to verify those aspects relating to the autonomy, the independence and the professionalism necessary to efficiently carry out the tasks assigned to it.

The Board of Statutory Auditors thus acquired from the Body the information on the adequacy of the organisational model adopted by the company, on its concrete functioning and on its effective implementation.

The Supervisory Body reported on the activities carried out during the year ended 31 December 2016 without indicating any significant critical profiles, highlighting a situation of substantial alignment with the provisions of the organisation and management model pursuant to Legislative Decree no. 231/2001.

4. Remuneration policies

The Board of Statutory Auditors took note that during the meeting on 2 March 2017, the Board of Directors approved the document "Report on Remuneration", regarding the 2016 financial year. With reference to remuneration policies, it is deemed opportune to underline that the By-laws foresee for the impossibility for the Meeting itself to: (i) *"set a limit to the ratio between the variable and the fixed component of the individual remuneration greater than 1: 1"*; (ii) award the Chairman a remuneration higher than that *"fixed received by the head of the Management Function Body"*.

The Board of Statutory Auditors furthermore acknowledged, thus agreeing with the comments within, the verifications carried out by the Internal Audit bodies and presented in the "Report on verifications carried out regarding the suitability of procedures for remuneration, with regards to policies and regulatory context": verifications which led to a satisfactory outcome.

During the year 2016 the Board of Statutory Auditors took note of the allocation of treasury shares of the Bank to the CEO and to the General Manager in accordance with the policies approved by the Shareholders' Meeting of 8 April 2015 and of the operating procedure approved by the Board of Directors.

In general, in light of the provisions issued by the Supervisory Authorities on the subject of remuneration and incentive systems, the Board of Statutory Auditors monitored, in close connection with the Remuneration Committee, the correct application of the rules governing the remuneration of managers of the Control Functions and of the Manager Responsible and the communication of remuneration policies for the 2017 financial year to the companies belonging to the Group.

On the basis of the information available so far, the Board considers that the principles set out in the Remuneration Report are not inconsistent with the corporate objectives, strategies and policies of prudent risk management.

The Board of Statutory Auditors is not aware, in addition to what has already been discussed earlier, of facts or details that need to be communicated to the Shareholders' Meeting.

The Board of Statutory Auditors did not receive during the year 2016 complaints from shareholders pursuant to art. 2408 of the Italian Civil Code.

In the course of the activity performed and on the basis of the information obtained, no omissions, reprehensible facts, irregularities or in any case other significant circumstances were detected that would require reporting to the Supervisory Authorities or mention in this report.

In conclusion, the Board of Statutory Auditors, taking into account the specific tasks conferred to the external auditing firm regarding auditing of the accounts and of the reliability of the financial statements, issued its opinion without qualifications, and in light of the claims issued pursuant to art. 154 bis of Legislative Decree 58/1998 by the Officer appointed to prepare the accounts and the corporate documents and by the CEO, has no comments to make to the Shareholders' Meeting, pursuant to art. 153 of the FSA, concerning the approval of the financial statements for the year to 31 December 2016, accompanied by the Management Report, as presented by the Board of Directors and therefore has no objections to the approval of the financial statements, to the proposed allocation of the operating profit or to distribution of the dividends.

Venezia - Mestre, 29 March 2017

For the Board of Statutory
Auditors
The Chairman

Giacomo Bugna

Independent auditors' report on the Separate Financial Statements

The attached report of the independent auditors and the separate financial statements to which it refers conform to those which will be deposited at the registered office of Banca IFIS S.p.A. and published pursuant to the law; subsequent to the date given in the report, EY S.p.A. did not carry out any audit work aimed at updating its contents.

INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH ART. 14 AND 16 OF LEGISLATIVE DECREE n. 39, DATED 27 JANUARY 2010

(Translation from the original Italian text)

To the Shareholders of Banca IFIS S.p.A

Report on the financial statements

We have audited the financial statements of Banca IFIS S.p.A., which comprise the statement of financial position as at December 31, 2016, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and the related explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree 38/05 and art. 43 of Legislative Decree 136/15.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with art. 11, paragraph 3 of Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Banca IFIS S.p.A. as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree N. 38/05 and art. 43 of Legislative Decree 136/15.

Report on other legal and regulatory requirements

Opinion on the consistency with the financial statements of the Director's Report and of specific information of the Report on Corporate Governance and Shareholding Structure.

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion on the consistency of the Director's Report and of specific information of the Report on Corporate Governance and Shareholding Structure as provided for by art. 123-bis, paragraph 4 of Legislative Decree 58/98, with the financial statements, as required by the law. Management is responsible for the preparation of the Director's Report and of the Report on Corporate Governance and Shareholding Structure in accordance with the applicable laws and regulations. In our opinion the Director's Report and the specific information of the Report on Corporate Governance and Shareholding Structure are consistent with the financial statements of Banca IFIS S.p.A. as at December 31, 2016.

Verona, March 27, 2017

EY S.p.A.

Signed by: Marco Bozzola, partner

This report has been translated into the English language solely for the convenience of international readers.